

New York, New York
December 1, 1947

To: The Directors:

The Consolidated 240 is nearing the end of its preliminary test runs, for certification by the government as an approved type transport.

Structurally the airplane is excellent; the workmanship compares well with the best. Our test pilots report that its flying characteristics in the air are excellent. Its interior comfort and appearance should be good.

The engineers missed their estimate in two categories: One, the airplane is going to be about 800 pounds heavier than we anticipated, after giving deduction to the increased weight of things which we have specified. There may be opportunity of getting back some of this payload through license at higher gross weight; that will be determined after additional tests.

The second principal deficiency is that with present engine h.p. of 2100 each the airplane, fully loaded, will take a longer takeoff run than we had anticipated. This, unless corrected, will make it unacceptable for some of the shorter airports, unless we take substantial reduction in carrying capacity.

Through modification of the present 2100 h.p. engines we can increase their takeoff h.p. to 2400. We are presently revising the contract with Consolidated to permit this. If 2400 h.p. engines are installed the takeoff run will meet original specifications. There is definite possibility, with the greater available power, to increase gross weight allowance, permitting recovery of some of the payload which has been lost through the heavier weight empty of the airplane.

Our engineers, our operating people, the management and the manufacturers consider it essential that this greater h.p. be available. We are, therefore, proceeding on a program looking to the modification of the engines on hand, to increase their h.p. capacity.

It is estimated that the cost of modifying the engines will run \$33,000. per airplane. There will be also additional cost for the modification of engine nacelles to take the modified engine. The total overall cost of this program will be shared between the company and the manufacturer. Figures on that will be given later in this letter.

Our traffic estimates indicate that not more than 75 of these airplanes will be required in 1948, and perhaps a greater number will not be required in 1949. Increased carrying capacity of the airplane, 40 passengers as compared with 21 for the DC-3, and increased cruising speed, 300 m.p.h. compared with 168 for the DC-3, will give substantial increase in seat mile capacity when these airplanes replace the DC-3. It seems evident that 75 airplanes will be sufficient for our early foreseeable requirements. We have, therefore, taken the liberty of modifying the contract, with the consent of Consolidated, to call for the delivery of 75 airplanes instead of 100. Reduction in our overall capital requirement, after providing for the increased cost of modifying the engines, is given later in this letter.

Capital Requirements.

Present:

100 CV240 airplanes, equipped, at \$221,000 each (including change orders and escalation)	\$22,100,000
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Modified Contract Requirements:

75 CV240 airplanes, equipped, at \$221,00 each	- \$16,575,000
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Additional cost of airplane conversion, to fit the larger engines, share to be borne by AA	- 187,500
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Estimated additional cost for the modification of 200 engines (150 for the airplanes and 50 spares)	\$ 3,300,000
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Total	\$20,062,500
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Less - Amount to be paid by Consolidated, through reduction in price of the first 24 airplanes	<u>\$ 1,632,000</u>
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Net Cost of 75 Airplanes	<u>\$18,430,500</u>
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Reduction in overall capital requirement	<u>\$ 3,669,500</u>
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As a result of this modification of the contract, the individual price of each airplane has risen to \$234,740, compared with contract price of \$221,000., a net increase of \$13,640. This present contract price of \$234,740 compares with present sales price, posted price list of Consolidated, of \$350,000.

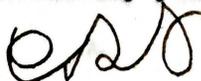
For the reason that this contract had to be executed prior to November 30, 1947 (end of fiscal year of Consolidated); inasmuch as it provided us with an airplane of greater efficiency than would have otherwise been available and inasmuch as it reduced our overall capital requirement by \$3,669,500., we have taken the liberty of executing the contract on behalf of the company. The contract will be submitted for your ratification at the next meeting of the Directors.

I hope that I have covered the points about which you would logically inquire with respect to this transaction. If I have not, would you let me know what additional information you may require; it will be submitted promptly.

In connection with the revised contract, a revised schedule of deliveries has been agreed to. It is:

January	-	2
February	-	4
March	-	6
April	-	7
8 per month thereafter		

Sincerely yours,



C.R. Smith