



AMERICAN AIRLINES

100 PARK AVENUE • NEW YORK 17, N. Y.

Dear Admiral:

Because of your interest in American Airlines, I believe you should know the facts concerning air mail pay and American Airlines. Too many people in Washington and elsewhere still think that *all* mail pay includes subsidy; that all current airline profits are made from mail pay. As you will see from this letter this is definitely not true.

American Airlines, Inc. receives no subsidy for the transportation of U. S. mail. In 1950, as in previous years, payments to American for the transportation of U. S. mail were on the basis of "service" rates; rates per pound about the same as charged for passenger transportation. The principal part of our total revenue, and of our profit, came from passenger, air freight, and express service to the public. Mail payments from the Federal Government amounted to only 5.1% of total income for the year.

For 1950 we will pay the Federal Government considerably more than it paid to us. We are glad that is the situation. We received for the transportation of mail about \$6,077,000. We will pay in Federal income and profit taxes, for the same period, about \$11,400,000.

It takes a lot of capital to operate an airline. The capital invested in American is now more than \$100,000,000. For the five years from 1946 through 1950 the average capital investment at work in American Airlines was \$90,000,000. The return on capital employed in the business is low, too low. Average annual earnings for the five years 1946 through 1950 were \$2,014,000, and average return on net assets, after taxes, was 2.25%.

We had heavy losses in 1946, 1947, and 1948. The years 1949 and 1950 were considerably better, but we will need several more profitable years before the earnings for the period are in keeping with reasonable return on investment. Airplanes cost us more each year. In 1946 we purchased DC-6 airplanes for \$630,000 each. This year we will be paying \$1,010,000 each for fourteen new DC-6B aircraft. There are comparable increases in other costs of operation.

We are contributing directly to the security of the United States. The airline fleet is the "first reserve" for airlift requirements of the National Defense Department. American Airlines has the largest fleet of modern aircraft in the domestic industry.

The airlines are justifying, by proven performance, your confidence in their utility and ability. It is our belief that these figures will interest you, for they prove that conclusively.

Sincerely yours,

C. R. SMITH
FLEET ADMIRAL

February, 1951