

AMERICAN AIRLINES, INC.
New York 17, New York

February 9, 1954

To: The Directors

I am sending you herewith an organization chart proposed for American. This will be discussed at the meeting of February 17, and I will recommend its approval. I would be grateful if in the meantime you will consider it and the discussion of this letter as CONFIDENTIAL.

We have been making minor modifications of our organizational structure for several years. Some of that has constituted patchwork. About six months ago we came to the conclusion that we should make a thorough study of the whole structure. All of the principal officers of the company have participated.

To aid, we employed McKinsey & Company, management consultants of good reputation. The first part of their work has been completed. They have aided in the preparation of the organization chart and recommend it.

Our first objective is to insure further decentralization. The system is too widespread to permit most effective operation with authority centralized in New York. The responsibilities and authority of the regional managers, both Operations and Sales, will be increased and will be adequately defined in the description of their positions.

There will be four Senior Vice Presidents, each in charge of a principal department. In addition, to provide better definition of coordination between the departments, we will recommend a Senior Officer's Council. This will generally meet once each week, to discuss and act upon the agenda before it.

It is intended that limited authority will be delegated to the Council, in this way: 1. The Council may make management decisions, within the framework of the basic policies of the company. 2. The Council may authorize expenditures or commitments, for property or leaseholds, up to \$50,000. Unanimous action of the Council will be required to do either. If unanimous agreement among the members is not available the matter will be referred to the President for decision.

There will be, either at the February meeting or at a later one, some additional delegation of expenditure authority to the field offices, Operations and Sales.

The largest department will continue to be Operations, headed by Mr. Mosier. There should be several changes in the makeup of that department:

1. General Operations formerly included both flight direction and ground services, under one head. We propose to divide the functions, into Flight, headed by Mr. L. G. Fritz, and Customer Service, headed by Mr. R. E. S. Deichler.

2. Engineering, New York, will be divided. Some of the functions will go to Tulsa, to be merged there with Service Engineering. A small group, headed by Mr. Dan Beard, will remain in New York, and will concentrate on Equipment Development. The function assigned to Mr. Littlewood will not be substantially changed, although he will be asked to do more in the field of Research.

3. Maintenance, Overhaul, Purchasing and Stores were formerly grouped in one department under Mr. Brandewiede. We propose that this shall be divided into two departments: Maintenance and Engineering, to be headed by Mr. Marvin Whitlock, Tulsa, and Purchasing and Stores, to be headed by Mr. G. J. Brandewiede, New York.

4. Some of the service functions of Sales will be transferred to Customer Service, permitting Sales to centralize more directly on revenue production.

5. Mr. Jacob will take over the duties of the Secretary, permitting Mr. Johnson to devote full time to Properties, under the continued direction of Mr. Jacob.

6. In the Finance Section, Mr. W. J. Hogan will take over organizational planning in addition to other duties. We should elect Mr. Ieland Glasgow Vice President-Comptroller, and Mr. Paul Larie, Treasurer of the company. Both will continue to operate under the direction of Mr. Hogan. Mr. McMillen, whose duties will not be substantially changed, should be Assistant Vice President, rather than Assistant Treasurer, to accord with the new form of organization, and Mr. Rinehart should be elected an Assistant Vice President.

7. The over-all duties and responsibilities of Public Relations, Mr. Rex Smith, and Personnel, Mr. G. K. Griffin, will not be substantially changed, although there will be additional delegation of responsibility and authority to the field offices, in keeping with the general trend.

Specifically, the actions which we will recommend to the Board at the February meeting are these:

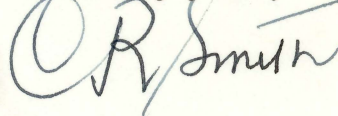
1. Elect Messrs. Mosier, Jacob, Hogan and Speers, Senior Vice Presidents, with titles as shown on the chart.
2. Permit the President to delegate to the Senior Officer's Council authority for leases and expenditures to the extent of \$50,000, according to the basic rules of the Council.
3. Elect Mr. R. E. S. Deichler, Vice President, Customer Service; Mr. Dan Beard, Vice President, Equipment Development; Mr. Marvin Whitlock, Vice President, Maintenance and Engineering, and change the title for Mr. L. G. Fritz to Vice President, Flight, and that of Mr. G. J. Brandewiede to Vice President, Purchasing and Stores. All of these officers will report through Mr. Mosier, as shown on the chart.
4. Elect Mr. Leland Glasgow, Vice President and Comptroller, and Mr. Paul Larie, Treasurer. Change the title of Mr. W. L. McMillen to Assistant Vice President and elect Mr. M. L. Rinehart, Assistant Vice President, Tax Administration. These officers will report through Mr. Hogan.
5. Elect Mr. C. W. Jacob, Secretary, making his title Senior Vice President and Secretary. Elect Mr. Walter Johnson, Vice President, Properties. The title for Mr. Johnson is, we believe, reasonably required on account of his representation of the company before State and Municipal governments, in connection with the administration of Property matters.

I suggest that we make these changes effective as of March 15, permitting reasonable time for rearrangement of duties.

This should be a better form of organization and the changes should have, we believe, a beneficial and lasting effect on the better management of the company, by division and statement of duties better in line with the various responsibilities of the operation.

All of us have an understandable reluctance to increase the number of the corporate officers but that, in our opinion and in the opinion of McKinsey & Company, is reasonably required for the effective operation of a larger company and for the form of organization proposed.

Sincerely yours,



C. R. Smith

Enclosure