

1939

# ANNUAL REPORT

TO THE  
STOCKHOLDERS



CONSOLIDATED AIRCRAFT CORPORATION  
LINDBERGH FIELD, SAN DIEGO, CALIFORNIA

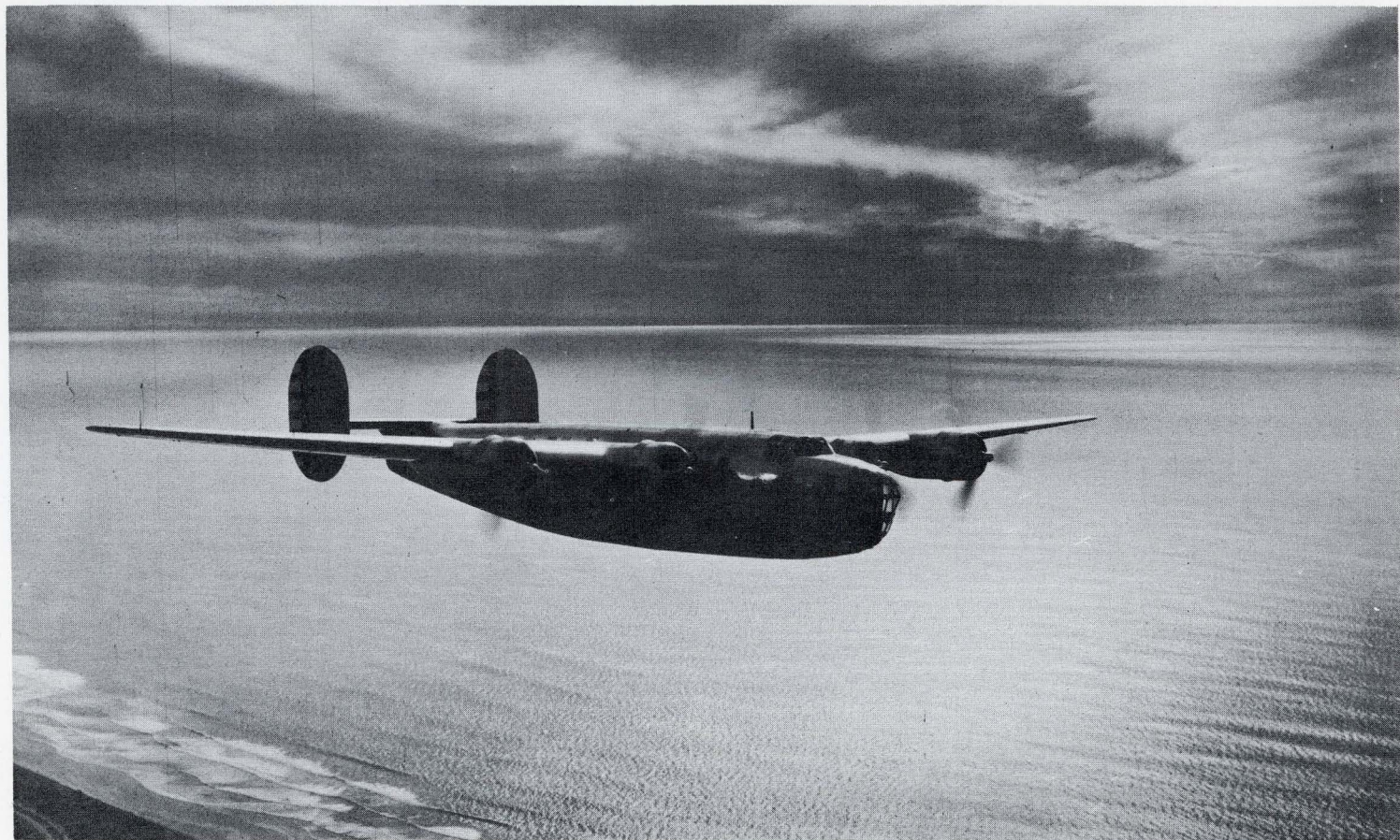
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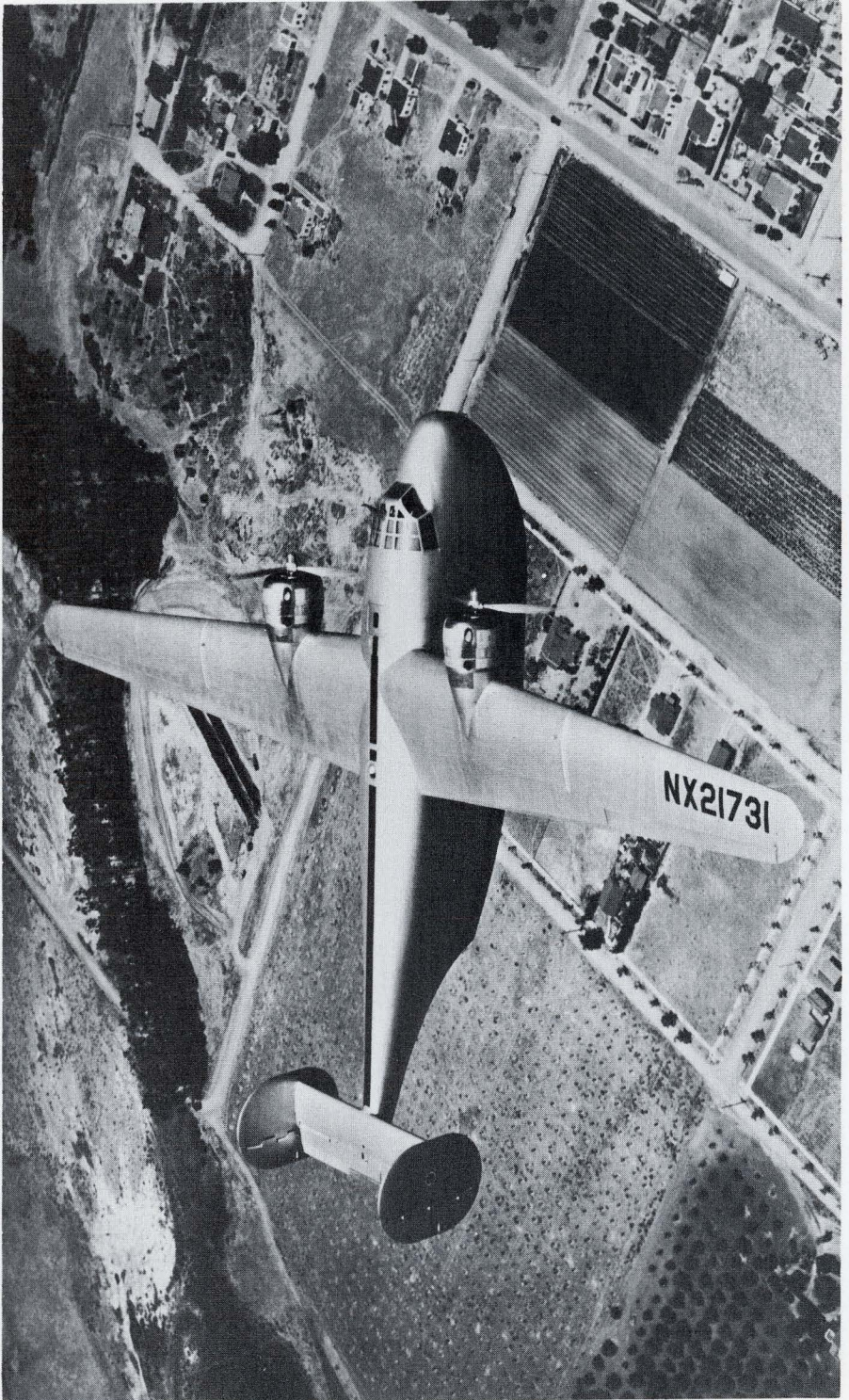
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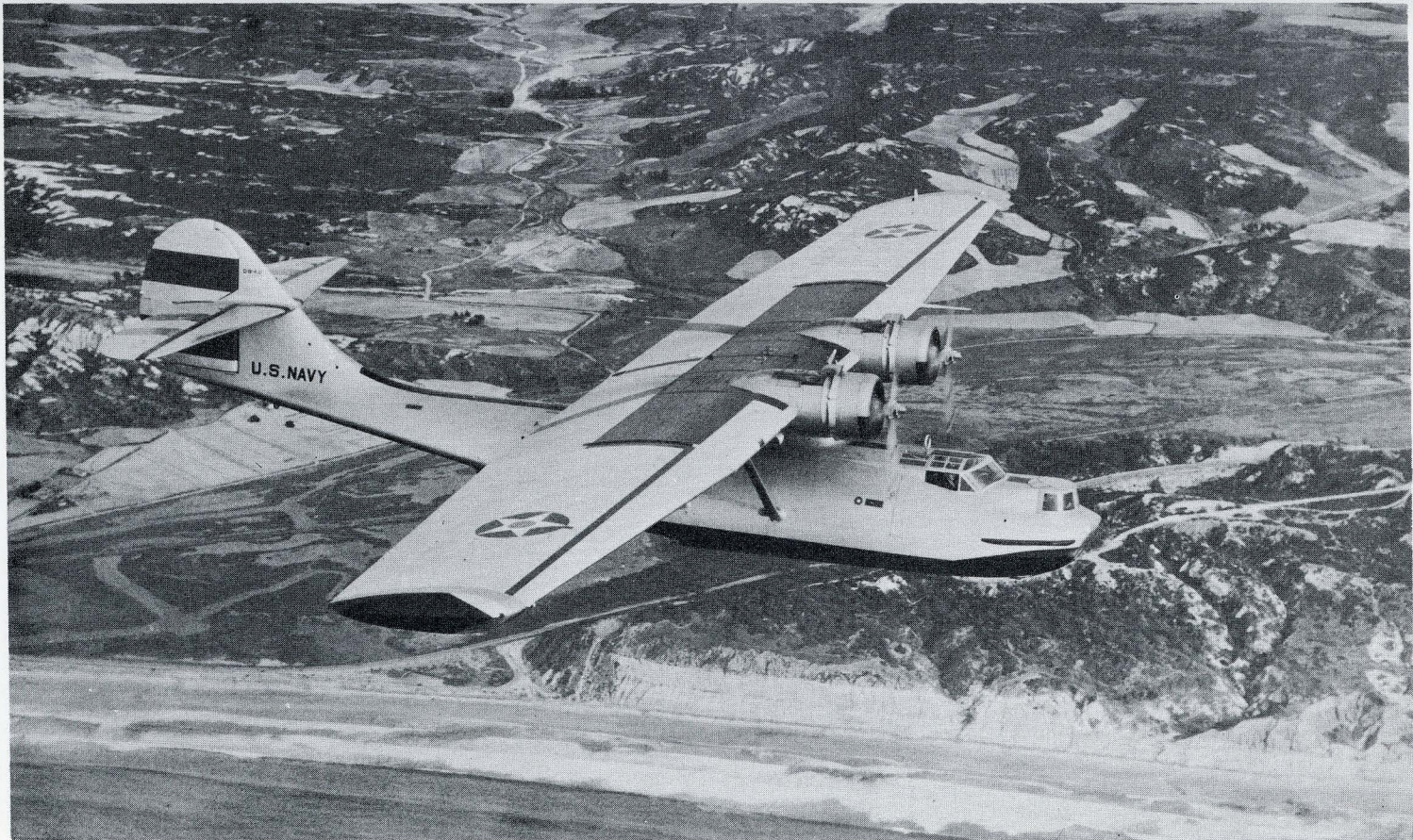
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CONSOLIDATED'S FOUR-ENGINE LONG-RANGE ARMY BOMBER





CONSOLIDATED'S MODEL 31 TWO-ENGINE LONG-RANGE PATROL BOMBER



CONSOLIDATED'S PB-24 TWO-ENGINE LONG-RANGE NAVY PATROL BOMBER

# CONSOLIDATED AIRCRAFT CORPORATION

San Diego, California

## Board of Directors

R. H. FLEET, Chairman

D. M. CARPENTER

ROBERT LEHMAN

D. G. FLEET

CHAS. T. LEIGH

JOHN HERTZ

PRESTON LOCKWOOD

EARLE G. HINES

GEORGE J. NEWMAN

JAMES L. KELLEY

F. D. SCHNACKE

I. M. LADDON

C. A. VAN DUSEN

## Officers

R. H. FLEET, President and Manager

C. A. VAN DUSEN, Vice-President and Works Manager

I. M. LADDON, Vice-President and Chief Engineer

CHAS. T. LEIGH, Vice-President and Materiel Supervisor

E. N. GOTT, Vice-President and Public Relations Director

W. M. SHANAHAN, Treasurer

R. A. STANBERRY, Secretary

JAMES L. KELLEY, Assistant Secretary and Factory Manager

*This is not a representation, prospectus, or circular in respect of any stock of this corporation, and is not transmitted in connection with any sale or offer to sell or buy any stock thereof or security now or hereafter to be issued, or with any preliminary or other negotiation for such sale.*

## TO THE STOCKHOLDERS OF CONSOLIDATED AIRCRAFT CORPORATION:

The annual financial report of your company for the year 1939, together with the certificate of its accountants, Haskins & Sells, is submitted herewith.

After provision for taxes, the company earned \$1,104,327 which amounts to \$1.79 a share on the common stock after the dividend of \$3 a share on the preferred stock.

Products valued at \$3,603,240 were delivered and billed, new orders amounting to \$42,948,053 were received, and unfilled orders as of December 31, 1939, aggregated \$42,141,694. Deliveries in 1939 were relatively low because of the large amount of new aircraft design and development work, together with production work in tooling and making of detail parts and assemblies for airplanes for delivery during 1940 and 1941.

You will observe from the footnotes accompanying the financial statements that, in determining the net income for 1939, the company followed its consistent practice of not taking profits on contracts unless substantially completed.

During the year, the company purchased and placed in operation a 4500-ton hydraulic press, a 1000-ton mechanical press, a drop hammer department with a pattern shop and foundry. It also increased the machine shop and tooling and drawbench departments.

In December, 1939, the company received an order from the United States Navy for \$20,016,700 for flying boats, which we believe is the largest contract for airplanes ever awarded by our Government. In order to meet the deliveries required by the Navy, it will be necessary to add new production facilities, which, in the public bid, were estimated to cost approximately \$2,000,000. Of this amount, approximately \$1,150,000 will be expended for new buildings, \$530,000 for new machinery and equipment, \$100,000 for yard paving and drainage, \$35,000 for moving and rearranging present facilities, and \$185,000 for cranes, handling equipment, etc. Building and yard area additions are marked on the picture on page 15.

Coincidentally with the execution of the contract, the company obtained a closing agreement with the Government, covering the method of amortizing the cost of such added facilities, both for income-tax and profit-limitation purposes.

Because of this construction program and to enable it better to handle its enormous back-log of business and avoid, if possible, issuance of new stock, (the company having outstanding fewer shares of common stock than any other aircraft manufacturing company whose common stock is listed on the New York Stock Exchange) the directors decided against declaring a dividend on the common stock in order to retain the funds in the business.

In an unprecedentedly short period, the company designed, constructed, and tested a prototype (pictured on page 2) of a new four-engine long-range bomber of unexcelled performance for the United States Army, and obtained orders for more than \$12,000,000 of these airplanes, thus marking the company's re-entry into the land-plane field and resumption of contractual relations with a most valued customer. As a private venture, the



company completed and tested a new twin-engine flying boat (pictured on page 3) adaptable for operation either as a long-range patrol bomber or as a 28-passenger transoceanic commercial airliner. This flying boat has two decks with a large flight control room and eight other compartments, and uses the same wing and general type of construction as the Army bomber. It is equipped with two 2000-horsepower engines mounting 16-foot full-feathering propellers. The engines and propellers are the largest ever manufactured in this country. Another product developed by the company during the year is a retractable tricycle landing gear for the PBY flying boat. This development permits operation of the PBY as an amphibian without materially affecting its excellent performance, and increases the utility and sales appeal of this airplane (see picture on page 13).

During the past few months, the company received contracts from foreign customers for a released version of the PBY.

At this date, our back-log of business is about \$49,000,000, which will keep us busy until 1941 midsummer; our employees number approximately 4,300, we are adding about 100 men a week, and are operating three shifts. Our products are giving excellent satisfaction and our new designs are receiving the careful consideration of our customers. Since organization in 1923, we have constructed more than three times as many airplanes with a wing span of 100 feet or over as all other American airplane manufacturers combined, and are the largest builders of flying boats in the world.

We announce with regret the resignation of Director J. M. Gwinn, Jr., who has entered the employ of another airplane manufacturing company.

We record with extreme sorrow the death of our friend and esteemed Director, George M. Pynchon, Jr.

Respectfully,

R. H. FLEET, President.

San Diego, California

6 March 1940

CONSOLIDATED AIRCRAFT CORPORATION  
(Incorporated in Delaware)

BALANCE SHEET, DECEMBER 31, 1939

ASSETS

CURRENT ASSETS:

Cash including time deposits of \$1,250,000.....	\$3,080,266.64
Accounts receivable .....	282,692.33
Inventories (at cost):	
Work in progress..	\$3,309,211.40
Materials, parts, and supplies ...	935,449.18    4,244,660.58
Total current assets .....	\$ 7,607,619.55

INVESTMENT IN FLEET AIRCRAFT, LIMITED (at cost) ..            22,096.64

EXPERIMENTAL FLYING BOAT—Model 31 (excluding engines, propellers, accessories, etc.) (not covered by a sales contract) .....

420,139.72

PROPERTY (at cost):

Buildings .....	\$1,096,183.42
Machinery and equipment .....	1,333,347.14
Land .....	29,762.65
Total .....	\$2,459,293.21
Less reserves for depreciation .....	510,873.42
Remainder—depreciated value .....	1,948,419.79

DEFERRED CHARGES—Prepaid insurance, taxes, etc.....            30,363.12

TOTAL .....

\$10,028,638.82

- NOTES: 1. It is the practice of the company to consider all operating costs and expenses (including depreciation) as elements of cost in determining inventories and cost of products sold. Products delivered and billed under partially completed contracts have been credited to the inventory at selling price.
2. The above balance sheet does not include any value for the company's leasehold equity, designs, patents, goodwill, special tools, etc.
3. Commitments aggregating approximately \$2,800,000 for additional production facilities, airplane materials and parts, etc., at current prices are not shown in the above balance sheet.

LIABILITIES

CURRENT LIABILITIES:

Accounts and wages payable .....	\$ 491,125.25
Progress payments and deposits received on uncompleted contracts .....	2,635,277.79
Accrued taxes (including taxes on income) .....	487,346.56
Total current liabilities .....	\$3,613,749.60

RESERVES FOR REPLACEMENT OF PARTS, ETC., UNDER CONTRACT GUARANTEES .....

602,836.54

CAPITAL STOCK:

Preferred stock (authorized 59,820 shares without par value; issued and outstanding, 23,820 shares designated as Convertible \$3 Preferred stock) .....	\$1,191,000.00
Common stock (authorized 1,200,000 shares of \$1 each; issued, 580,760 shares; in treasury, 4,600 shares; outstanding, 576,160 shares) ....	576,160.00
Total capital stock .....	1,767,160.00

CAPITAL SURPLUS (premium on Common stock) .....

35,240.00

EARNED SURPLUS .....

4,009,652.68

TOTAL .....

\$10,028,638.82

4. At December 31, 1939, 47,640 shares of Common stock were reserved for conversion of Convertible \$3 Preferred stock and 24,200 shares of Common stock (including the 4,600 shares in the treasury) were reserved for offering to such of the company's employees (other than the president) as may be designated from time to time by the president. Of the stock reserved for employees, 19,600 shares were under option at \$20 a share on December 31, 1939. These options expire ten days after termination of employment or on May 29, 1942. During 1939, options covering 1,400 shares of Common stock were exercised.
5. In the event of voluntary liquidation or dissolution, holders of the company's Convertible \$3 Preferred stock are entitled to \$55 a share. Were such action involuntary, holders are entitled to \$50 a share.

# CONSOLIDATED AIRCRAFT CORPORATION

## STATEMENT OF INCOME AND EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1939

NET SALES (airplanes and parts) :	
United States Army .....	\$ 51,929.64
United States Navy .....	2,931,947.19
Commercial and export .....	606,184.13
Miscellaneous .....	<u>13,178.97</u>
Total .....	\$3,603,239.93
COSTS AND EXPENSES APPLICABLE TO	
PRODUCTS SOLD .....	2,239,126.24
PROFIT FROM OPERATIONS .....	<u>\$1,364,113.69</u>
INCOME CREDITS—Discounts, interest, etc.....	33,978.96
TOTAL .....	<u>\$1,398,092.65</u>
INCOME CHARGES:	
Interest, etc. ....	\$ 721.77
Federal income tax .....	<u>293,044.14</u>
Total .....	293,765.91
NET INCOME .....	<u>\$1,104,326.74</u>
EARNED SURPLUS, JANUARY 1, 1939.....	2,976,785.94
TOTAL .....	<u>\$4,081,112.68</u>
DIVIDENDS PAID ON PREFERRED STOCK.....	71,460.00
EARNED SURPLUS, DECEMBER 31, 1939.....	<u><u>\$4,009,652.68</u></u>

NOTE: It has been the consistent practice of the company to consider all operating costs and expenses (including depreciation) as elements of cost in determining inventories and cost of products sold. In 1939, the provision for depreciation amounted to \$141,993.63. Profits on contracts are taken in the year in which such contracts are substantially completed. The net income as shown above includes profits on a substantial amount of products delivered and billed in a prior year. Pending final determination of costs, products delivered and billed under partially completed contracts have been included in cost of sales at selling prices. The aggregate amount of such billings for 1939 is \$242,570.94.

## ACCOUNTANTS' CERTIFICATE

CONSOLIDATED AIRCRAFT CORPORATION:

We have examined the balance sheet of Consolidated Aircraft Corporation as of December 31, 1939, and the statement of income and earned surplus for the year ended that date, have reviewed the system of internal control and the accounting procedures of the company, and have examined or tested its accounting records and other supporting evidence by methods and to the extent we deemed appropriate. Our examination of inventories included physical tests of quantities of materials, parts, and supplies, but not of work in progress, the inventory of which is based upon accumulated costs shown by cost records.

In our opinion, the accompanying balance sheet and related statement of income and earned surplus fairly present the financial condition of the company at December 31, 1939, and the results of its operations for the year ended that date, in conformity with generally accepted accounting principles followed by the company on a basis consistent with that of the preceding year.

HASKINS & SELLS

Los Angeles,

February 21, 1940.

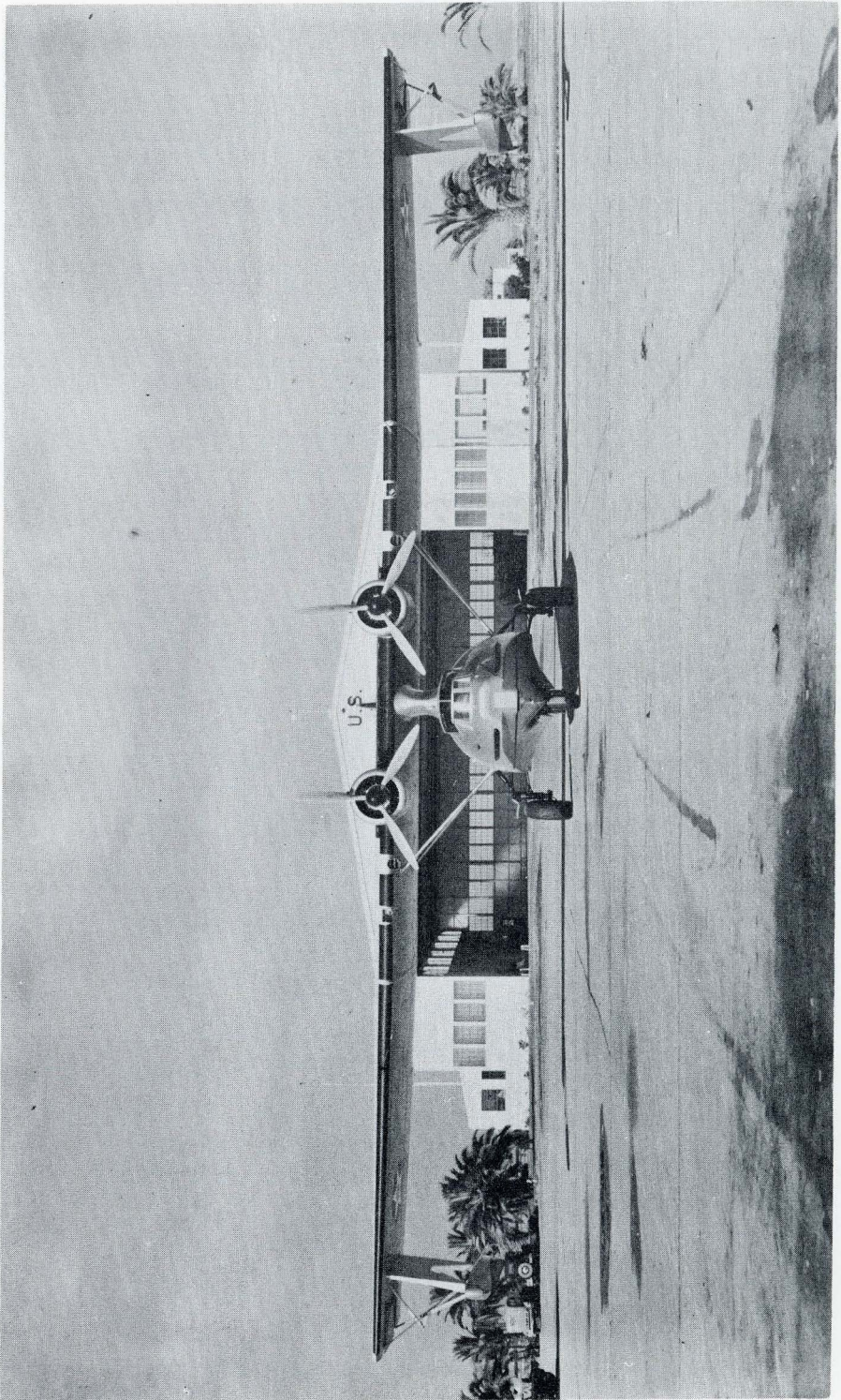
# CONSOLIDATED AIRCRAFT CORPORATION

## STATEMENT OF DELIVERED BUSINESS SINCE ORGANIZATION

<u>Year</u>	<u>Total</u>	<u>Army</u>	<u>Navy</u>	<u>Other</u>
1924.....	\$ 210,975.45	\$ 210,975.45	\$	
1925.....	593,695.00	593,695.00		
1926.....	1,118,034.66	949,625.86	168,408.80	
1927.....	1,284,470.24	717,752.24	564,503.63	2,214.37
1928.....	3,138,590.28	1,617,584.13	1,295,722.39	225,283.76
1929.....	2,651,238.72	804,197.65	934,667.73	912,373.34
1930.....	4,353,940.19	1,894,258.55	411,988.72	2,047,692.92
1931.....	1,902,333.67	1,544,055.74	40,178.74	318,099.19
1932.....	1,274,609.83	344,391.02	381,915.27	548,303.54
1933.....	2,360,525.36	218,691.54	1,876,834.05	264,999.77
1934.....	1,479,488.67	622,758.14	140,018.82	716,711.71
1935.....	2,821,279.28	68,084.15	2,314,725.97	438,469.16
1936.....	4,085,978.58	2,490,945.26	1,260,443.76	334,589.56
1937.....	11,907,493.48	22,423.13	9,670,918.21	2,214,152.14
1938.....	12,245,067.47	89,901.79	10,691,994.82	1,463,170.86
1939.....	3,603,239.93	51,929.64	2,931,947.19	619,363.10
Total..	<u>\$55,030,960.81</u>	<u>\$12,241,269.29</u>	<u>\$32,684,268.10</u>	<u>\$10,105,423.42</u>

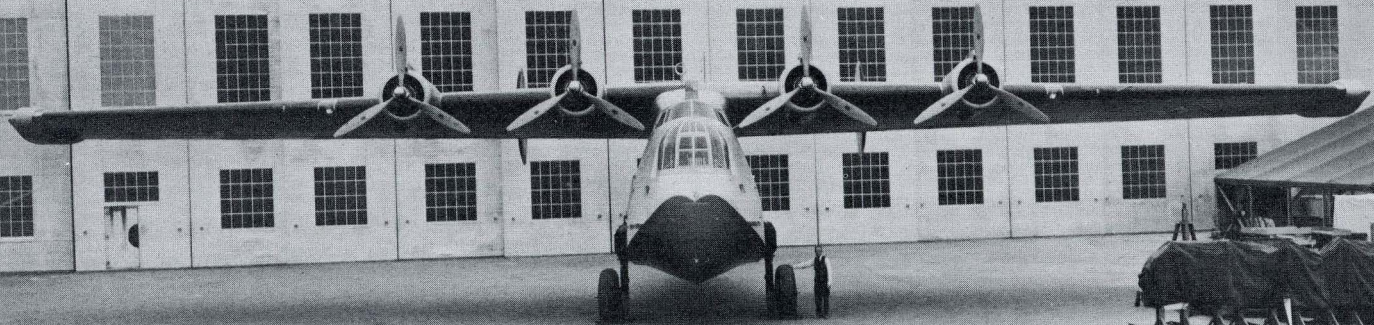
### SUMMARY

	<u>Sales</u>	<u>Profit After Income Tax</u>	<u>% to Sales</u>
Army .....	\$12,241,269.29	\$1,440,031.00	11.8
Navy .....	32,684,268.10	2,683,363.58	8.2
Other .....	10,105,423.42	1,448,828.25	14.3
Total.....	<u>\$55,030,960.81</u>	<u>\$5,572,222.83</u>	<u>10.1</u>



AMPHIBIAN VERSION OF CONSOLIDATED'S NAVY PB4Y

CONSOLIDATED



CONSOLIDATED'S FOUR-ENGINE LONG-RANGE NAVY PATROL BOMBER

