Annual Report

30 JUNE 1946



McDONNELL *Aircraft Corporation*

Manufacturers of AIRPLANES AND HELICOPTERS ★ ST. LOUIS, MISSOURI, U. S. A.



Entrance to General Offices

DIRECTORS

F. V. Desloge

J. L. Johnson

W. R. Kent

J. S. McDonnell

W. A. McDonnell

T. S. McPheeters

E. E. Rand

L. S. Rockefeller

J. M. Schaeffer

J. R. Shepley

Harper Woodward

EXECUTIVES

J. S. McDonnell	President
C. W. Drake	Vice President
L. E. Williams	Vice President
P. M. Cozad	Treasurer
R. H. Charles	Secretary
W. A. Roth	Factory Manager
G. C. Covington	Airplane Chief Engineer
C. L. Zakhartchenko	Helicopter Chief Engineer
G. E. Bounds	Director of Public Relations
V. J. Wiltse	Director of Industrial Relations

McDONNELL AIRCRAFT CORPORATION

Lambert-St. Louis Municipal Airport

Box 516, St. Louis 21, Missouri

31 October 1946

TO THE STOCKHOLDERS OF
McDONNELL AIRCRAFT CORPORATION:

Presented herewith is the report for the fiscal year ended 30 June 1946 (fiscal 1946), including financial statements as audited by Lybrand, Ross Bros., & Montgomery.

SALES

Sales amounted to $6,562,001.27 against $20,667,847.86 in fiscal 1945, $21,704,-254.86 in fiscal 1944 and $10,585,978.96 in fiscal 1943. During fiscal 1946 a substantial amount of cost-plus-fixed-fee work was converted to a fixed price basis, and the sales of $6,562,001.27 did not include $4,427,236.66 of work performed under fixed price contracts, under which no deliveries were made during the year.

EARNINGS

Before the carry-back provisions of the Excess Profits Tax were applied, M.A.C. suffered a loss (including a loss of $257,037.00 on Platt-LePage Aircraft Company) of $491,134.24. After applying the tax refund of $265,000.00, the net loss was $226,134.24.

DIVIDENDS

During the year M.A.C. continued to pay a $6.00 per share dividend on preferred stock.

PLATT-LE PAGE

On 25 June 1946 Platt-LePage Aircraft Company ceased operations and is now being liquidated. As a result, M.A.C.'s investment in Platt-LePage stock and notes was written down to zero as of 30 June 1946, but it is expected that M.A.C. will recover a net amount of at least $26,000 from the liquidation. In addition, the default on the notes resulted in M.A.C. becoming the majority (63%) owner of Rotary Research Corporation. The collateral behind the Platt-LePage notes was stock of Rotary Research Corporation, which owns the five Platt-LePage helicopter patents and the nineteen patent applications.

PERSONNEL

The post-war employment low of 2,486 was reached in January 1946. Since that date the number of personnel has steadily increased, reaching 2,755 on 30 June 1946, and 2,919 in October 1946. On the basis of present contracts, it is expected that by May 1947 approximately 3,400 persons will be employed. M.A.C. and its personnel are continuing the same cordial relationship as in the past, and on 13 August 1946 renewed its collective bargaining agreement for another year until 1 July 1947. Since V-J Day not a single day has been lost on account of strikes and only three days have been lost since the founding of M.A.C. in 1939. Of the 1,039 personnel who entered the armed forces, 333 returned to M.A.C.

THE *PHANTOM*

On 21 July 1946 the *Phantom* passed one of its most crucial tests in completing successfully several carrier take-offs and landings aboard the aircraft carrier Franklin D. Roosevelt. The *Phantom*, developed by M.A.C. in collaboration with the Navy, has a speed in excess of 500 miles per hour and is the first carrier-based fighter airplane powered solely by jet propulsion. It thus combines high performance with the stability and low speed characteristics necessary to operate from a carrier. The 29 July 1946 issue of "Aviation News" stated:

> "First demonstration of the ability of an American Navy twin jet-propelled fighter to operate from a carrier at sea, last week scored several points for the McDonnell XFD-1 *Phantom* and probably put a final damper on further development of conventional-powered Navy carrier fighters.
>
> Demonstrated clearly were two expected points of jet-propelled fighter superiority: much higher speeds, and rapid warm-up (take-offs were made two minutes after engines started). The XFD-1 also clearly showed it possessed good stability at relatively low speeds, that it could take a 'wave-off' in its stride, and that it could become airborne in runs of less than 400 feet, * * * less than 40% of the available flight deck."

Deliveries of the production version of the FD-1 *Phantom* will start in a few months.

THE *WHIRLAWAY*

M.A.C. is engaged in the development of the Navy Model XHJD-1 helicopter, called the *Whirlaway*. This twin engine, twin rotor aircraft of 11,000 pounds gross weight is the world's largest and first twin-engine helicopter. Experimental flight tests have been conducted for the past several months. Twin engines of 450 horsepower each permit greater safety over rough terrain, populated areas, and water. The *Whirlaway* is estimated to cruise at more than 100 mph. M.A.C. is planning a commercial version of the *Whirlaway* which will carry ten passengers and a crew of two, or will transport an equivalent cargo load.

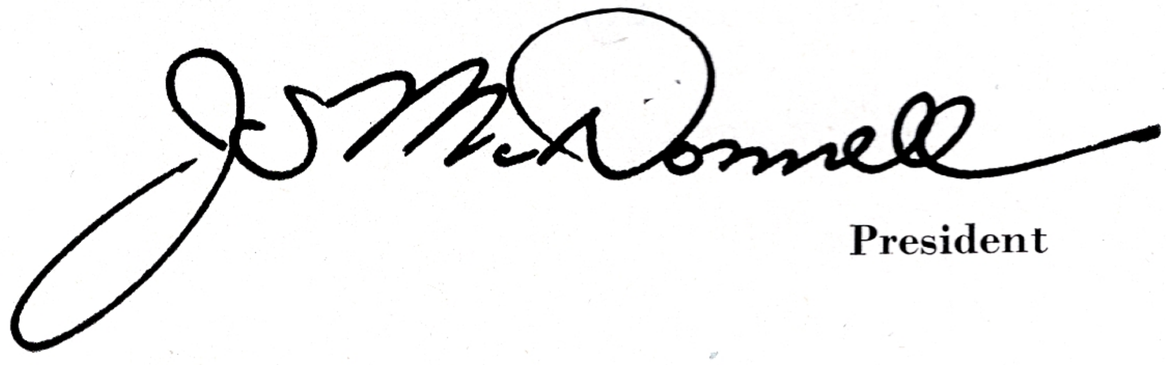
OTHER WORK

In addition to the foregoing, M.A.C. is now working on research and development contracts for higher performance jet-propelled airplanes, pilotless aircraft, jet engines and a helicopter. Since this work is for the Army and Navy, its nature cannot be disclosed at this time.

THE OUTLOOK

About half of M.A.C.'s present backlog is in experimental contracts, and this constitutes a much higher ratio of experimental to production work than is normal. It means that as the experimental products are perfected, if production orders are obtained on a majority of them, a considerable expansion in M.A.C.'s business will result.

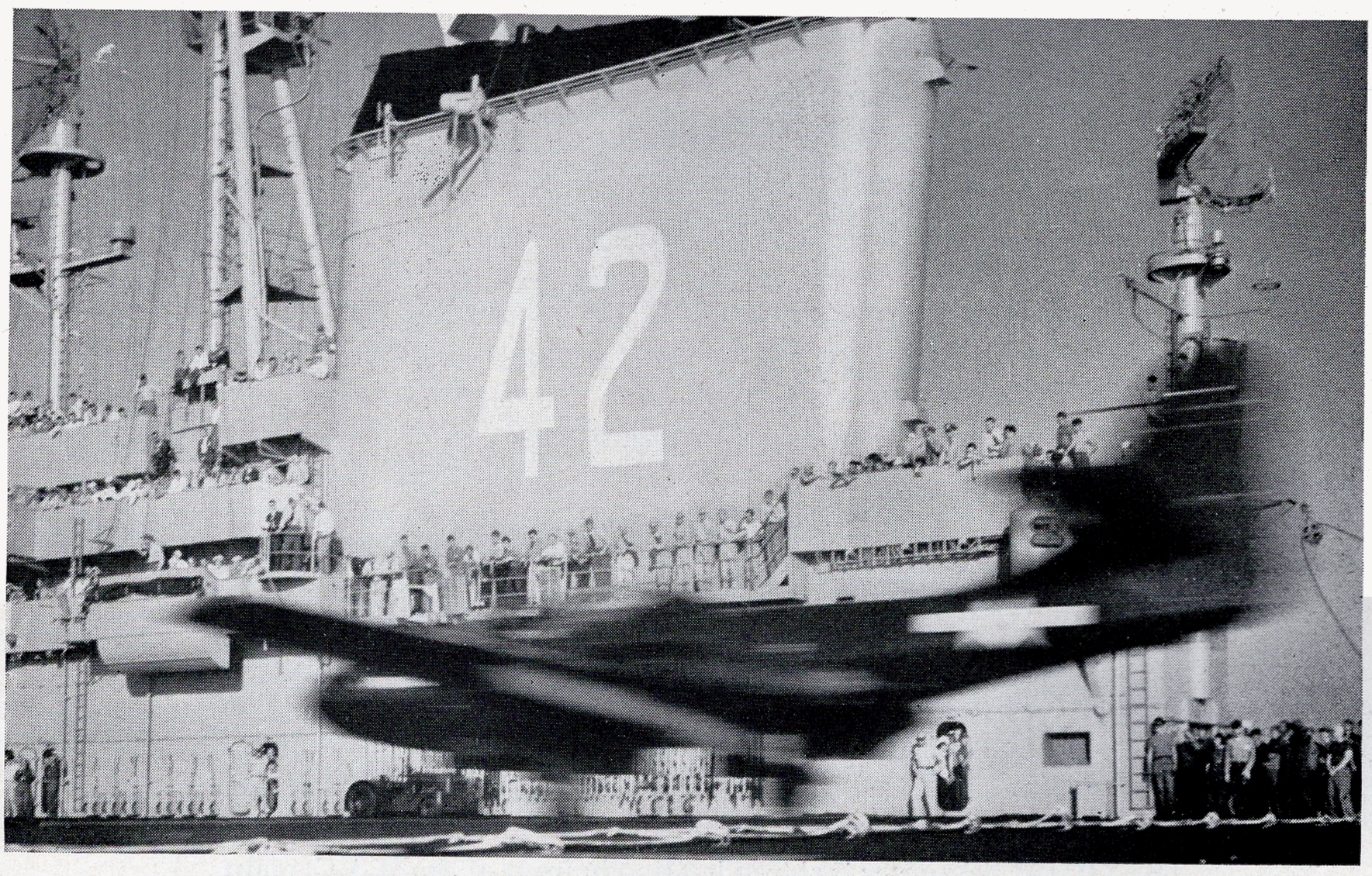
By Order of the Board of Directors



President



The XFD-1 *Phantom*, America's first all jet-propelled airplane to qualify for aircraft carrier duty. The first production FD-1 *Phantom* is now off the assembly lines and being flight tested at Lambert Field.



The "Fleetest of the Fleet," the XFD-1 *Phantom* shattered precedent by landing and taking off from the deck of the U.S.S. Aircraft Carrier Franklin D. Roosevelt, near the Virginia Capes on 21 July 1946.



The XHJD-1 *Whirlaway*, the world's largest and first twin-engine helicopter, is a significant step forward in the development of rotary wing aircraft. It was designed by M.A.C. in collaboration with the Bureau of Aeronautics of the Navy.



The XHJD-1 helicopter is shown landing in front of the M.A.C. plant at Lambert-St. Louis Municipal Airport. The *Whirlaway* is estimated to cruise at 100 MPH with a useful payload of 3,000 pounds. Its gross weight is 11,000 pounds.

LYBRAND, ROSS BROS. & MONTGOMERY
Certified Public Accountants

NEW YORK	DETROIT	DALLAS
PHILADELPHIA	CLEVELAND	HOUSTON
CHICAGO	CINCINNATI	SAN FRANCISCO
BOSTON	ROCKFORD	LOS ANGELES
BALTIMORE	LOUISVILLE	SEATTLE
WASHINGTON	ST. LOUIS	——
PITTSBURGH	ATLANTA	LONDON

The Board of Directors,
McDonnell Aircraft Corporation,
St. Louis 21, Missouri.

We have made an examination of the balance sheet of McDONNELL AIRCRAFT CORPORATION (a Maryland Corporation) as at June 30, 1946, and of the related statements of operations, and capital and earned surplus for the fiscal year then ended, have reviewed the accounting procedures of the company, and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, including data prepared by a government audit group, to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. A physical inventory of work-in-process was deemed impracticable because of the present stage of production, however, the accounting controls and supporting data for such inventory were investigated to the extent deemed appropriate. Confirmation of receivables from a department of the United States Government was not requested but we satisfied ourselves as to such asset by means of other auditing procedures.

As stated in Note G to the financial statements (a) it has been the consistent policy of the company not to accrue fees or income upon work performed under letter contracts because such contracts do not represent definitive agreements or include the basis for determining allowable fees or profit margins, and (b) the company has elected to accrue income under long-term fixed-price contracts only as the units manufactured thereunder are delivered and billed.

In our opinion, the accompanying balance sheet and statements of operations, and capital and earned surplus, with notes pertaining thereto, and with the explanation given in the preceding paragraph, present fairly the position of McDONNELL AIRCRAFT CORPORATION at June 30, 1946 and the results of operations for the fiscal year ended that date, in accordance with generally accepted principles of accounting applied on a basis consistent with that of the preceding year.

Lybrand, Ross Bros. & Montgomery

St. Louis, Missouri,
October 21, 1946.

McDONNELL AIRCRAFT CORPORATION
(A Maryland Corporation)
Balance Sheet – June 30, 1946

ASSETS

Current assets (Note A):		
Demand deposits in banks and cash on hand		$ 155,799.38
United States Treasury bonds, at cost		550,000.00
Accounts receivable:		
Customers:		
United States Government	$ 420,241.69	
Other	33,149.74	
	453,391.43	
Other, principally due from the United States Government for recoverable moving and rearrangement expenses (less reserve for doubtful accounts of $2,055.14)	295,882.73	749,274.16
Unbilled costs and fees under cost-plus-a-fixed fee contracts, or letter contracts expected to become cost-plus-a-fixed fee contracts:		
Contracts in progress, including accrued fees of $8,487.83	94,030.15	
Costs incurred under letter contracts expected to become fixed fee contracts	1,184,324.24	
Costs incurred under terminated contracts	105,603.22	1,383,957.61
Inventories (Note B):		
Raw materials and purchased parts	369,904.38	
Work in process	4,470,046.59	4,839,950.97
Estimated claim for refund of prior years' federal taxes on income, net of postponed taxes of $84,989.36 (Note C)		180,010.64
Total current assets		7,858,992.76
Cash surrender value of insurance on life of an officer		9,935.00
Investment in capital stock of Rotary Research Corporation, at amount assigned by Board of Directors		2,250.00
Property, plant and equipment, at cost (Note D):		
Buildings	92,586.81	
Machinery and equipment	266,359.02	
Furniture and fixtures	75,611.69	
Transportation equipment	1,177.49	
	435,735.01	
Less, Reserve for depreciation	301,059.52	
	134,675.49	
Land, not used in operation	17,710.39	152,385.88
Deferred research and development expenses		45,003.48
Prepaid expenses and insurance deposits, etc.		33,505.91
Patents, patent applications and trade mark		3,364.99
		$8,105,438.02

The appended notes are an integral part of this balance sheet.

McDONNELL AIRCRAFT CORPORATION
(A Maryland Corporation)
Balance Sheet – June 30, 1946

LIABILITIES

Current liabilities:

Notes payable to banks (Note A)		$3,097,000.00
Customer's progress payments on a fixed-price contract		3,039,748.63
Accounts payable — trade		239,202.10
Employee payroll deduction		60,782.30
Accrued liabilities:		
Payroll	$ 130,363.26	
Interest	8,213.08	
Taxes, other than taxes on income	98,819.95	
Miscellaneous	14,837.05	252,233.34
Preferred dividends payable (paid on July 1, 1946)		8,064.00
Total current liabilities		6,697,030.37

CAPITAL

Capital stock (Note F):

Noncumulative 6 percent preferred, par value $100 per share, entitled in voluntary liquidation to $100 per share and callable at $105 per share, convertible into common stock at the rate of 1 share of preferred stock for 10 shares of common stock; 5,376 shares outstanding (10,000 shares authorized and issued, less 4,624 shares converted into common stock)		537,600.00
Common, par value $1 per share, authorized 360,000 shares, outstanding 226,177 shares		226,177.00
		763,777.00
Add:		
Premiums on common stock sold	$ 36,483.33	
Premiums on conversion of preferred stock into common stock	416,160.01	
	452,643.34	
Less, Discounts on sales of common stock and $4,230 commission paid to a broker in connection with sales of same	98,108.40	354,534.94
		1,118,311.94

	Shares
Common stock reserved for:	
Conversion of preferred stock outstanding	53,760
Purchase warrants at $10 per share	80,000
	133,760

Surplus, as annexed:		
Capital surplus	52,957.00	
Earned surplus (Note A)	237,138.71	1,408,407.65
		$8,105,438.02

The appended notes are an integral part of this balance sheet

STATEMENT OF CAPITAL SURPLUS
For the Year Ended June 30, 1946

Balance, June 30, 1945	$ 153,208.25
Reduction in assigned value of investment in notes of Platt-LePage Aircraft Company authorized by Board of Directors	100,251.25
Balance, June 30, 1946	$ 52,957.00

STATEMENT OF EARNED SURPLUS
For the Year Ended June 30, 1946

Balance, June 30, 1945		$ 150,437.13
Add:		
Restoration of allowance for loss on investment in capital stock and notes of Platt-LePage Aircraft Company provided at June 30, 1945, which is no longer needed as such investments were written off in the accompanying statement of operations	$ 207,788.25	
Adjustment resulting from restatement of reserve for amortization of emergency facilities to reflect accelerated depreciation to September 30, 1945, in lieu of amortization (Note D)	172,372.57	380,160.82
		530,597.95
Deduct:		
Net loss from operations for the year ended June 30, 1946	226,134.24	
Adjustment for acceleration of amortization of emergency facilities, less $102,502.34 related reduction in prior years' federal taxes on income (Note D)	33,710.00	
Cash dividends declared on preferred stock	33,615.00	293,459.24
Balance, June 30, 1946 (Note A)		$ 237,138.71

The appended notes are an integral part of these statements of earned and capital surplus.

STATEMENT OF OPERATIONS
For the Year Ended June 30, 1946

Work performed under:			
Cost-plus-a-fixed fee contracts (including fees of $140,836.90)			$3,489,408.93
Letter contracts expected to become cost-plus-a-fixed fee contracts (Note G)			2,355,445.27
Reimbursable costs contract (no fee)			717,147.07
			$6,562,001.27
Cost of work performed, including related administrative expense			6,421,164.37
Balance, representing management fees under cost-plus-a-fixed fee contracts			140,836.90
Cost of work performed under uncompleted long-term, fixed-price contracts (or letter contracts expected to become fixed-price contracts), including related administrative expense, all carried to inventory accounts (Note G)			$4,427,236.66
Administrative expense and other costs not charged to contracts:			
Advertising		$ 78,003.81	
Research and experimental		75,516.33	
Other		34,689.50	
		188,209.64	
Provision for loss on cost-plus-a-fixed fee contract costs submitted in prior year but not reimbursed	$ 75,544.01		
Less, Recoveries of cost-plus-a-fixed fee contract costs submitted and disallowed in prior years	12,984.27	62,559.74	250,769.38
			(109,932.48)
Other deductions (net):			
Interest and other costs of bank loans		129,015.43	
Miscellaneous income, less $4,660.88 other deductions		4,850.67	124,164.76
			(234,097.24)
Write-off of investment in capital stock and notes of Platt-LePage Aircraft Company, as authorized by Board of Directors			257,037.00
Net loss, before estimated refund of prior years' federal taxes on income under carry-back provisions of the Internal Revenue Code			(491,134.24)
Estimated claim for refund of prior years' federal taxes on income under carry-back provisions of the Internal Revenue Code (Note C)			265,000.00
Net loss from operations for the year ended June 30, 1946			($226,134.24)

The appended notes are an integral part of this statement of operations.

NOTES PERTAINING TO FINANCIAL STATEMENTS

June 30, 1946

(A) Notes payable to banks aggregating $3,097,000 at June 30, 1946 comprise (a) $550,000 due and paid July 1, 1946 secured by $550,000 par value U. S. Government bonds and (b) $2,547,000 issued under a bank credit agreement of $3,600,000, and are payable within ninety days (with renewal at company option provided no default exists) or on July 1, 1947, whichever is earlier.

The agreement provides, among other things, that the funds advanced under the agreement are restricted for use solely in the fulfillment of assigned government contracts or in the settlement of obligations under cancelled assigned government contracts; that the company will not purchase any of its own stock; that the company maintain after April 2, 1946 to the termination of the agreement net current assets of not less than $850,000, plus fifty percent of the cumulative net profits as defined in the agreement and which are earned by the company after June 30, 1945.

The agreement furthermore provides that the company may not pay any dividends on its preferred stock, except out of increases in earned surplus above the earned surplus shown on the company's unaudited balance sheet as of December 31, 1945 which amounted to $56,191.75. Also, dividends on common stock may not be paid except under certain conditions which in the opinion of the management may not be realized before the termination of the bank credit agreement.

Under this agreement, the company has assigned to the trustees all monies due or to become due under certain war production contracts. The assets so assigned at June 30, 1946 amounted to $3,701,404.31, after deduction of $3,039,748.63 of progress payments from customers.

NOTES PERTAINING TO FINANCIAL STATEMENTS

(Continued)

(B) Raw materials and purchased parts are stated at average cost based upon a physical inventory taken on March 3, 1946 and adjusted for subsequent transactions to June 30, 1946. Work-in-process inventory represents the accumulated book costs under a job order cost system, less the segregated value of raw materials and purchased parts. A physical inventory of work-in-process was deemed impracticable, because of the present stage of production.

(C) Federal income and excess profits tax returns filed by the company from its inception to June 30, 1944 have been examined by an agent of the Internal Revenue Service. The report rendered thereon proposes a substantial deficiency based upon the disallowance, as an element of excess profits credit, of capital borrowed under the bank credit agreement of January 2, 1943. The company is of the opinion that this proposed deficiency is improper and is strongly contesting such disallowance, therefore, no provision has been made in the annexed balance sheet for the proposed liability. Other proposed deficiencies which have been accepted by the company are offset by the exclusion from the records of the claim for refund of prior years federal taxes on income resulting from the acceleration of amortization of emergency facilities for tax purposes.

(D) The company has taken advantage of the provisions of the Internal Revenue Code which permit the deduction for federal tax purposes of amortization of emergency facilities covered by Certificates of Necessity from dates of acquisition to September 30, 1945. As the company has followed the practice of recording amortization of emergency facilities in the accounts in the same manner as for federal tax purposes, the amortization of $136,212.34 applicable to prior years and the related tax credit have been included in the accompanying statement of earned surplus.

However, as the property covered by such Certificates of Necessity aggregating $478,616.01 is considered of useful value, the reserves for amortization of emergency facilities have been restated to reflect accelerated depreciation to September 30, 1945, in lieu of amortization. Such accelerated depreciation from July 1, 1945 to September 30, 1945 amounted to $24,536.01, and normal depreciation taken from such latter date to June 30, 1946 amounted to $37,550.24.

The company is presently occupying premises and using facilities owned by the Reconstruction Finance Corporation under a five-year rental contract dated July 31, 1945. This contract provides that all production shall be under primary contracts with the government or under subcontracts with suppliers to the government. The contract also includes a provision that the lease may be terminated at any time upon ten days' prior written notice if substantial use of the facilities provided under the lease agreement shall no longer be required to complete such primary or subcontracts.

Buildings owned by the company at June 30, 1946 were subsequently sold at prices in excess of their adjusted book values.

(E) Renegotiation proceedings for the year ended June 30, 1945 were waived by the government. Substantially all of the company's business for the six months ended December 31, 1945 is subject to renegotiation, but as the operations for that period resulted in a reported loss, no refunds are anticipated.

(F) The company entered into an agreement on July 20, 1939 with James S. McDonnell, Jr., by the terms of which he was given certain options and would become entitled to receive certain warrants to purchase common stock of the company. Under this contract the company gave and granted to James S. McDonnell, Jr., or assigns, the rights, options and privileges:

(a) To purchase, from time to time, not exceeding 80,000 fully paid and non-assessable shares of the par value of $1.00 each of the common stock of the company, at the price of 5 cents for each share thereof, provided, however, that the total amount of common stock which may be purchased in accordance with this provision shall be limited to and shall not exceed four-fifths of the number of shares of common stock of the company issued, together with preferred stock, in units of one share of preferred stock and not more than ten shares of common stock, at not less than $100.00 per unit.

(b) If and whenever any of the outstanding preferred stock of the company, nor or hereafter outstanding, shall be converted into common stock through the exercise by the holders of preferred stock of their conversion privilege, to receive transferable warrants, dated as of the date of such conversion, entitling the holders thereof to purchase, at any time on or before five (5) years from the date thereof, at $10.00 per share, four-fifths of the number of shares of common stock which shall be issued upon the surrender of preferred stock for conversion.

(c) In the event that common stock of the company is issued in any manner other than

(i) in units of not more than 10 shares of common stock and 1 share of preferred stock for not less than $100.00 per unit;

(ii) upon the conversion of preferred stock into common stock;

(iii) to James S. McDonnell, Jr., or assigns, pursuant to paragraphs (a) and (b) hereof,

to receive transferable warrants entitling the holders thereof to purchase, at any time within five years from the date thereof, at the same price at which such additional shares of common stock are sold to the public or to other stockholders of the company, four shares of common stock for each five shares of such common stock so sold to the public or to other stockholders of the company.

At June 30, 1946, the option under clause (a) had been exercised, and under clause (b) common stock is reserved for James S. McDonnell, Jr., or assigns, as follows:

	Shares
Warrants received resulting from conversion of 4,624 shares of preferred stock into common stock (4/5 of 46,240)	36,992
Warrants to be received only if and when remaining 5,376 outstanding shares of preferred stock are converted into common stock (4/5 of 53,760)	43,008
	80,000

If and when all of the options under clauses (a) and (b) are received and exercised, James S. McDonnell, Jr., or assigns, would own 4/9 of the total authorized 360,000 common shares and will have paid $804,000.00 cash for same.

At a special meeting of stockholders on September 24, 1942, it was resolved that the company's charter of incorporation be amended to enable the company to issue capital stock in exchange for cash, property or the securities of other corporations, and that it be understood that the options granted under the contract of July 20, 1939 may be exercised whether the company's stock is

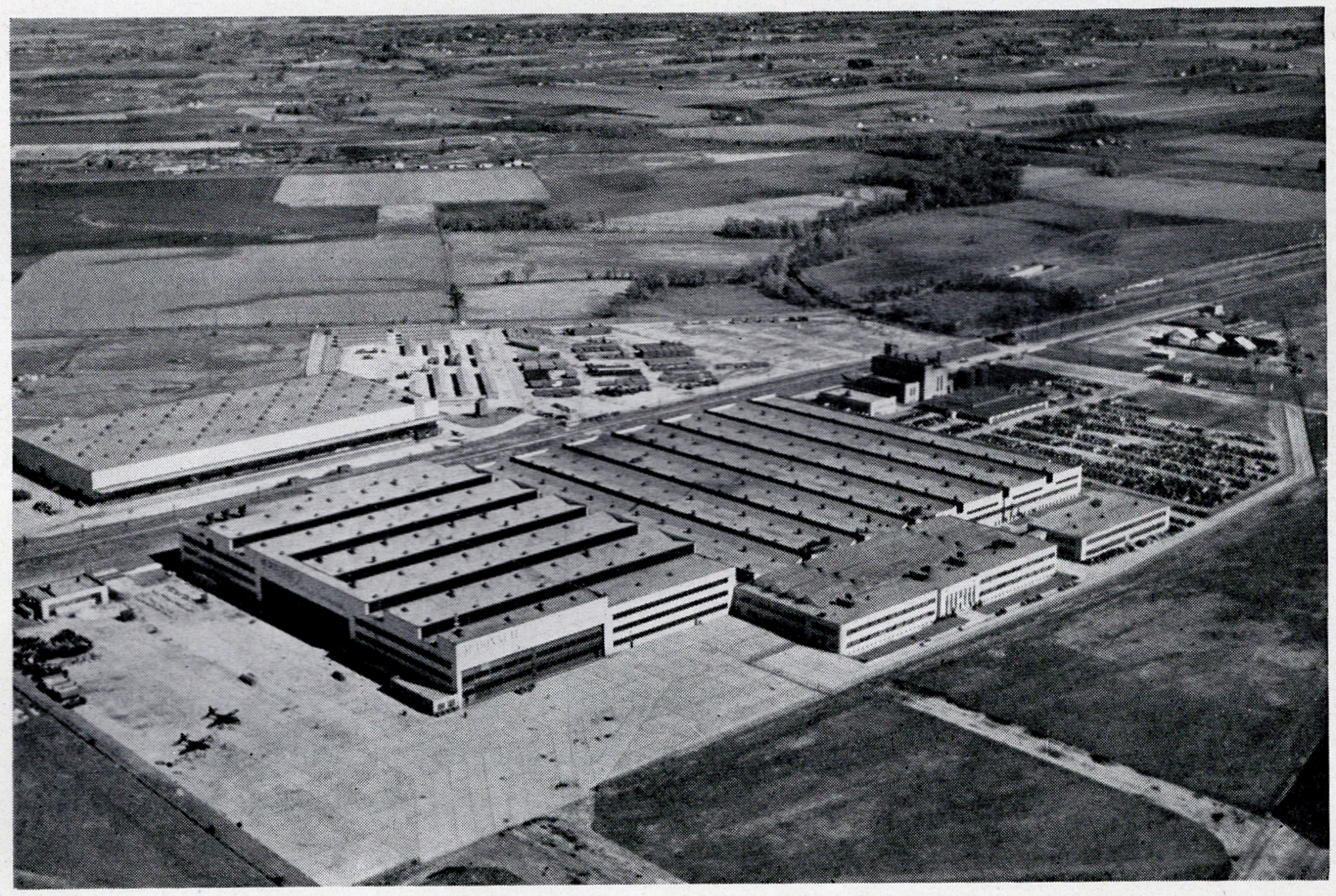
NOTES PERTAINING TO FINANCIAL STATEMENTS

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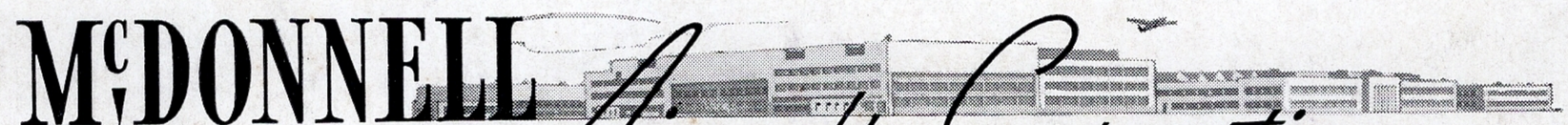
issued for cash or in payment or exchange for property or for the stock or other securities of other corporations.

(G) It has been the consistent policy of the company not to accrue fees or income upon work performed under letter contracts because such contracts do not represent definitive agreements or include the basis for determining earnings, if any. Expenditures to June 30, 1946 under letter contracts on which no income has been accrued aggregated $2,997,280.29, of which $478,678.81 and $2,518,601.48 were incurred in the years ended June 30, 1945 and 1946, respectively.

During the year ended June 30, 1946 a contract which existed as a cost-plus-a-fixed fee letter contract at June 30, 1945 was negotiated retroactively from its inception into a fixed-price contract. Work under this contract was begun in March, 1945, and accumulated costs to June 30, 1946 amounted to $4,652,875.46, of which $388,795.01 is applicable to the year ended June 30, 1945. No units have been delivered under this contract. It is the policy of the company to estimate and accrue income under long-term fixed-price contracts, such as the contract just described, only as the units manufactured thereunder are delivered and billed.



Aerial photograph of the M.A.C. plant taken November 1946.



McDONNELL Aircraft Corporation

Manufacturers of AIRPLANES AND HELICOPTERS ★ ST. LOUIS, MISSOURI, U. S. A.