Annual Report and
Consolidated Balance Sheet
of
MACK TRUCKS, INC.
and Subsidiary Companies

December 31, 1938
BOARD OF DIRECTORS

E. C. Fink, Chairman

L. G. Bissell
H. W. Croft
J. N. Marshall
Steele Mitchell

Clarkson Potter
Walter E. Reid
W. Hinckle Smith
F. F. Staniford

TRANSFER AGENT OF STOCK

Guaranty Trust Company of New York, New York City

REGISTRAR OF STOCK

Bankers Trust Company, New York City

OFFICERS

E. C. Fink, President
F. F. Staniford, Vice President-Sales Manager
J. E. Savacool, Vice President-Comptroller
L. C. Josephs, Jr., Vice President-Chief Engineer
C. T. Ruhf, Vice President-Factory Manager
C. W. Haseltine, Secretary-Treasurer
T. V. Homan, Asst. Secretary-Asst. Treasurer
F. R. Harrison, Assistant Secretary
F. W. Sommer, Assistant Treasurer
H. S. Conklin, Auditor
A. W. Rice, Branch Auditor
TO 'I-HE STOCKHOLDERS OF
MACK TRUCKS, INC.

There is submitted herewith Consolidated Balance Sheet and Profit and Loss Statement of Mack Trucks, Inc., and Subsidiary Companies, certified to by Arthur Young & Company, showing the condition of your Company as of December 31, 1938.

Net Sales, as shown on the attached statement of operations, amounted to $25,595,925.07, as compared with $34,212,794.66 for the year 1937.

Net Operating Profit for the year is $322,561.68 before deducting depreciation, maintenance and repairs, model tools, dies, jigs, fixtures and patterns, in amount of $2,121,323.08. Other Net Income for the year amounted to $869,589.96, leaving a final net loss for the year in the amount of $929,171.44. This compares with a net profit for the year 1937 of $1,284,691.27.

A change was made, effective as of January 1, 1938, in the method of providing for depreciation on certain classes of manufacturing assets. Prior to that date depreciation charges were calculated at basic rates but reduced by the ratio that actual production was less than estimated normal production. The method adopted as of January 1, 1938 is based on spreading the undepreciated balance of such assets over the remaining useful life thereof. This change resulted in a decrease of $310.63 for the year 1938 in the amount provided for depreciation on these manufacturing assets.

Federal and State Unemployment Insurance and Old Age Benefits Taxes for the year 1938 amounted to $331,041.15 as compared with $327,523.48 for the year 1937.

Net Current Assets and Sundry Investments at December 31, 1938 amounted to $23,644,117.38, as compared with $23,972,087.25 at December 31, 1937.

Inventories are priced at cost or market, whichever is lower, and proper provision has been made for obsolescence. The Company has unfilled purchase commitments at the close of the year which are not in excess of current requirements; the market shrinkage in such commitments is not material.

A dividend for the first quarter of the year at the rate of 25 cents per share was paid on March 31, 1938 amounting to $149,333.71. No further dividends have been paid since this date.

The Board of Directors of the Company authorized the writing off, effective as of December 31, 1938, of the item shown in previous consolidated balance sheets under the caption “Licenses, Patents, Patent Rights and Goodwill”. This item represents the excess cost of investment in subsidiary companies over their net tangible assets at date of acquisition. The amount thereof, namely $2,438,364.94, has, in accordance with said authorization, been charged to earned surplus.
The year 1938 was a difficult one. Prices were at low levels and, because of sharply reduced output, costs were higher. The violent and abrupt decline in business activity which started in 1937, continued far into 1938, and not until the early Fall of 1938 did the volume of new business begin to increase. To date the improvement has been spotty and irregular although orders in January and up to February 10th, are more than 150% greater in dollar volume as compared with the same period of last year.

The work in the Factories has been unsteady and many employees have been on short time but happily the average hours per man per month have risen since midyear, (December and January being approximately 40% higher) and it is hoped that a higher work level can be maintained this year.

Several new truck models were introduced during the year and new transmissions and engines, including Diesels, have been developed and put on the market.

At the end of the year, the Company had on its rolls 6485 employees whose service records are approximately as follows—

<table>
<thead>
<tr>
<th>Service Period</th>
<th>No.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than five years</td>
<td>2720</td>
<td>41.9</td>
</tr>
<tr>
<td>Five to ten years</td>
<td>1205</td>
<td>18.6</td>
</tr>
<tr>
<td>Ten to fifteen years</td>
<td>1370</td>
<td>21.1</td>
</tr>
<tr>
<td>Fifteen to twenty years</td>
<td>848</td>
<td>13.1</td>
</tr>
<tr>
<td>Twenty to twenty-five years</td>
<td>246</td>
<td>3.8</td>
</tr>
<tr>
<td>Over twenty-five years</td>
<td>96</td>
<td>1.5</td>
</tr>
</tbody>
</table>

It is with sorrow and regret that we record the passing of Mr. Thomas L. Chadbourne, Mr. Robert E. Fulton and Mr. William R. Edson. Mr. Chadbourne was one of the founders and a Director from the beginning of the Company. Mr. Fulton and Mr. Edson were, at various times, employees, officers and directors from the inception of the Company. Mr. Fulton had resigned, early in 1936, due to illness. Their loss will be greatly felt.

Our thanks are expressed to our employees for their staunch and loyal attitude toward the Company. Their work has been performed under extremely difficult conditions with undiminished loyalty, zeal and enthusiasm.

FOR THE DIRECTORS

E. C. Fink
President

New York City, N. Y.

February 17, 1939.
**MACK TRUCKS, INC., A**

**CONSOLIDATED BALANCE SHEET**

### ASSETS

#### CURRENT ASSETS:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$1,825,118.48</td>
</tr>
<tr>
<td>Accounts Receivable (less Reserve $115,214.66)</td>
<td>2,008,397.85</td>
</tr>
<tr>
<td>Installments Receivable (a) (less Reserve $888,897.12)</td>
<td>12,580,953.58</td>
</tr>
<tr>
<td>Inventories (less Reserve $74,689.61) valued at the lower of cost or market</td>
<td>10,590,868.29</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>$27,005,338.20</strong></td>
</tr>
</tbody>
</table>

#### SUNDARY INVESTMENTS-At Cost or Nominal Value

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(less Reserve $21,000.00)</td>
<td>382,415.82</td>
</tr>
<tr>
<td><strong>Total Current Assets and Sundry Investments</strong></td>
<td><strong>$27,387,754.02</strong></td>
</tr>
</tbody>
</table>

#### FIXED ASSETS-At Cost:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate</td>
<td>$1,739,054.13</td>
</tr>
<tr>
<td>Buildings and Building Equipment</td>
<td>$13,942,741.21</td>
</tr>
<tr>
<td>Machinery and all Other Equipment</td>
<td>19,700,683.68</td>
</tr>
<tr>
<td><strong>Total Fixed Assets</strong></td>
<td><strong>$33,643,424.89</strong></td>
</tr>
<tr>
<td>Less: Reserve for Depreciation</td>
<td><strong>$22,001,225.10</strong></td>
</tr>
<tr>
<td><strong>Deposits in Closed Banks</strong> (less Reserve $56,822.43)</td>
<td>14,177.66</td>
</tr>
<tr>
<td><strong>Deferred Charges (Prepaid Taxes, Insurance Premiums, etc.)</strong></td>
<td>322,474.25</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$41,105,659.85</strong></td>
</tr>
</tbody>
</table>

(a) Installments receivable are secured by chattel mortgages, conditional sales agreements or customers' default. The installments receivable on hand and those sold aggregate $1.

The reserve of $888,897.12, shown above, is considered adequate provision for such losses as may occur.

(b) This is the excess of amounts provided over amounts paid. Federal income tax returns filed with the Internal Revenue but have not been closed. For the year 1935 no provision for Federal income taxes of these years is not determinable at this time.
## I, AND SUBSIDIARIES

### SHEET AT DECEMBER 31, 1938

### LIABILITIES & CAPITAL

#### CURRENT LIABILITIES:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drafts Payable</td>
<td>$205,110.69</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>1,987,670.61</td>
</tr>
<tr>
<td>Accrued Accounts (Taxes, except Federal Income Tax, Commissions, Insurance Premiums, etc.)</td>
<td>1,493,747.82</td>
</tr>
<tr>
<td>Customers' Deposits</td>
<td>28,870.08</td>
</tr>
<tr>
<td>Accrual of Federal Income Tax of Prior Years (b)</td>
<td>28,237.44</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>$3,743,636.64</td>
</tr>
</tbody>
</table>

#### MINORITY INTERESTS

- **Shares:** 2,300.00

#### CAPITAL STOCK:

<table>
<thead>
<tr>
<th>Description</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common, No Par Value</td>
<td>817,973</td>
</tr>
<tr>
<td>Authorized</td>
<td></td>
</tr>
<tr>
<td>Outstanding</td>
<td>597,335</td>
</tr>
<tr>
<td>Stated at $5 per share</td>
<td>2,986,675.00</td>
</tr>
</tbody>
</table>

#### SURPLUS (per accompanying statement):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Surplus Paid-In</td>
<td>$25,874,547.26</td>
</tr>
<tr>
<td>Earned Surplus</td>
<td>8,498,500.95</td>
</tr>
<tr>
<td></td>
<td>34,373,048.21</td>
</tr>
</tbody>
</table>

#### CONTINGENT LIABILITIES:

- As guarantor of dealers' notes | $13,212.05 |
- On agreement to repurchase installments receivable sold, in event of customers' default (a) | $4,437,972.43 |
- On foreign drafts discounted    | 15,768.02   |

**Total:** $41,105,659.85

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For leases, $4,437,972.43 have been sold under agreement to repurchase in the event of $17,907,823.13 of which $8,451,440.44 are due at dates subsequent to December 31, 1939. As may occur on installments receivable on hand and on repurchases, if any, of those sold. For the years 1934, 1935, 1936 and 1937 have been reviewed by the Bureau of Income tax is considered necessary. The amount of additional tax, if any, in respect...
MACK TRUCKS, INC., AND SUBSIDIARIES
STATEMENT OF CONSOLIDATED OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1938

SALES — NET .................................................................................................................. $25,595,925.07

NET OPERATING PROFIT FOR YEAR BEFORE DEDUCTING MAINTENANCE AND REPAIRS AND PROVISION FOR DEPRECIATION .................................................................................................................. $ 322,561.68

Deduct:

  Maintenance and Repairs ................................................................. $ 1,069,182.68
  Provision for Depreciation (a) ............................................................ 1,052,140.40  2,121,323.08

NET OPERATING LOSS FOR YEAR ............................................................................... $ 1,798,761.40

Deduct:

  Other Income—Net—
      Interest on Installments Receivable ......................................................... $ 932,255.30
      Miscellaneous Other Income ........................................................................ 127,327.27

Less:

  Interest Paid .............................................................. $ 165,564.03
  Provision for losses on Investments, etc. ......................................................... 24,428.58  189,992.61  869,589.96

NET LOSS FOR YEAR ................................................................................................... $ 929,171.44

(a) The provision for depreciation for the year 1935 was $1,052,140.40 and for the year 1937 was $1,174,354.19. A change was made, effective as of January 1, 1938, in the method of providing for depreciation on certain classes of manufacturing assets. Prior to that date depreciation charges were calculated at basic rates but reduced by the ratio that actual production was less than estimated normal production. The method adopted as of January 1, 1938 is based on spreading the undepreciated balance of such assets over the remaining useful life thereof. This change resulted in a decrease of $310.63 for the year 1938 in the amount provided for depreciation on these manufacturing assets.

STATEMENT OF CONSOLIDATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1938

SURPLUS AT DECEMBER 31, 1937, per Published Accounts ........................................ $37,889,918.30  $25,874,547.26  $12,015,371.04

Deduct:

  Net Loss for year, per accompanying statement of operations ....................... $ 929,171.44  $ —  $ 929,171.44
  Write-off of Licenses, Patents, Patent Rights and Goodwill (a) .......................... 2,438,364.94  $ —  2,438,364.94
  Cash Dividend on Common Stock ................................................................... 149,333.7  1  149,333.71

$ 3,516,870.09  $ —  $ 3,516,870.09

SURPLUS AT DECEMBER 31, 1938 ................................................................. $34,373,048.21  $25,874,547.26  $ 8,498,500.95

(a) The Board of Directors of the Company authorized the writing off, effective as of December 31, 1938, of the item shown in previous consolidated balance sheets under the caption "Licenses, Patents, Patent Rights and Goodwill". The amount thereof, namely $2,438,364.94, has, in accordance with said authorization, been charged to earned surplus.
TO THE BOARD OF DIRECTORS AND STOCKHOLDERS,
MACK TRUCKS, INC.,
New York, N. Y.

We have made an examination of the consolidated balance sheet of MACK TRUCKS, INC.,
AND SUBSIDIARIES as at December 31, 1938 and of the statements of consolidated operations
and surplus for the year 1938. In connection therewith we examined or tested accounting records
of the Companies and other supporting evidence and obtained information and explanations from
officers and employees of the Companies. We did not examine the accounting records of branch
offices but did inspect reports submitted by them. We also inspected reports of examinations
made by the internal audit staff throughout the year. We made a general review of the account-
ing methods and of the operating and income accounts for the year, but we did not make a de-
tailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and
related statements of consolidated operations and surplus, including the notations thereon, fairly
present, in accordance with accepted principles of accounting consistently maintained by the Com-
panies during the period under review, their consolidated financial position at December 31, 1938
and the results of their operations for the year then ended.

New York City, N. Y.
February 17, 1939.

(Signed)

ARTHUR YOUNG & COMPANY
BRANCHES

AKRON, O. ........................................ 695 Johnston Street
ALBANY, N. Y .................................. 1062 Broadway
ALLENTOWN, PA. ................................ 870 Peachtree Street, N. E.
ATLANTA, GA. .................................. 730 Peachtree St., Northwest
BALTIMORE, MD. ............................... 1210 East 20th Street
BIRMINGHAM, ALA. .......................... 2121 Second Ave., South
BOSTON, MASS. .................................. 75 No. Beacon St. (Allston)
BRIDGEPORT, CONN ........................... 3240 Fairfield Avenue
BRONX, N. Y. .................................. Leggett Ave. and Barry St.
BROOKLYN, N. Y. ............................... Cor. Third Ave. & Seventh St.
BUFFALO, N. Y. .................................. 173 4 Jefferson Avenue
CAMDEN, N. J. .................................. Jefferson Ave. and Sixth St.
CHARLOTTE, N. C. ................................ 1400 South Mint Street
CHICAGO, ILL. ................................... 33rd St. and Wentworth Ave.
CINCINNATI, 0 .................................. 1223 West Eighth Street
CLEVELAND, 0 .................................. 7061 Carnegie Avenue
COLUMBUS, 0 ................................... 517 North Park Street
DALLAS, TEX. .................................... 1900 South Ervay Street
DES MOINES, IOWA ........................... 106 East Grand Avenue
DETROIT, MICH. ................................ 513 3 Grand River Avenue
ERIE, PA. ....................................... 1921 State Street
FRESNO, CAL. ................................... 1652 "H" Street
HARRISBURG, PA ................................ 72 4 South Cameron Street
HARTFORD, CONN. ............................. 709 Windsor Street
HOUStON, TEX. .................................. 7005 Harrisburg Blvd.
INDIANAPOLIS, IND. ........................... 7200 South Washington Street
JACKSONVILLE, FL-4 .......................... 123 Riverside Avenue
JERSEY CITY, N. J. ............................ Jersey Ave. and Sanford St.
NEW BRUNSWICK, N. J. ........................ 138 Mill Street
NEWBURGH, N. Y. ................................ 151 Orange Ave. (West Haven)
NEW HAVEN, CONN ............................. 740 Carondelet Street
NEW ORLEANS, LA .............................. 625 West 42nd Street
NEW YORK, N. Y. .............................. 504 West 24th Street
NORFOLK, VA. ................................... 3 East Tenth Street
OKLAHOMA CITY, OKLA ...................... 25 Lakeview Avenue
PATERSON, N. J. .................................. 2647 East York Street
PHILADELPHIA, PA. ............................ Liberty Ave. and Gross St.
PITTSBURGH, PA. ............................... 702 Exeter Ave. (West Pittston)
PITTSBURGH, PA. ............................... 18 Bedford Street
PORTLAND, ME. ................................ 7 N. E. Oregon Street
PORTLAND, ORE. .............................. 205 Delafield Street
POUGHKEEPSIE, N. Y. .......................... 630 Broadway
PROVIDENCE, R. I. ............................. 1212 Moss Street
READING, PA. .................................. 1209 North Boulevard
SACRAMENTO, CAL. ........................... 1375 University Avenue
ST. LOUIS, MO. ................................. 3124 Folsom Boulevard
ST. PAUL, MINN. ............................... 700 University Ave. (Midway)
SALT LAKE CITY, UTAH ...................... 867 South Main Street
SAN FRANCISCO, CAL. ........................ 701 Ninth Avenue North
SEATTLE, WASH. ............................... 18 Osborne Terrace
SPRINGFIELD, MASS. .......................... 923 West Genesee Street
SYRACUSE, N. Y. ................................ 1715 Platt Street
TORONTO, CAN. ................................ 255 Dufferin Street
UTICA, N. Y. .................................... 103 Seneca Street
WASHINGTON, D. C. .......................... 1419 North Capitol St. N. W.
WATERBURY, CONN. ........................... 1144 South Main Street
WHITE PLAINS, N. Y. .......................... 111 South Kensico Avenue
WORCESTER, MASS. .............................. 306 Belmont Street