Annual Report
and
Consolidated Balance Sheet
of
MACK TRUCKS, INC.
and Subsidiary Companies
December 31, 1940
BOARD OF DIRECTORS

E. C. Fink, Chairman

L. G. Bissell
George E. Clark
H. W. Croft
J. N. Marshall

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-Manufacturing Manager
C. W. Haseltine, . . . . . . . . . . Secretary-Treasurer
T. V. Homan, . . . . . . . . . . Asst. Secretary-Asst. Treasurer
F. W. Sommer, . . . . . . . . . . Asst. Secretary-Asst. Treasurer
F. R. Harrison, . . . . . . . . . . Assistant Secretary
H. S. Conklin, . . . . . . . . . . Auditor
A. W. Rice, . . . . . . . . . . Branch Auditor
TO THE 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, 1940.

Net Sales, as shown on the attached statement of operations, amounted to $44,052,345.77 as compared with $35,569,455.30 for the year 1939.

Net Operating Profit for the year was $4,158,607.25 before providing for depreciation, maintenance and repairs, model tools, dies, jigs, fixtures and patterns, in the amount of $2,705,209.83. Other Net Income for the year amounted to $962,423.71. After providing for estimated Federal Income Taxes in the amount of $640,000.00, the net profit for the year was $1,805,821.13. This compares with a net profit for the year 1939 of $652,957.19.

Taxes continue to be a heavy burden. The Federal and State Social Security Programs covering Old Age Benefits and Unemployment Insurance cost us in taxes $557,217.93 as compared with $417,386.95 for the year 1939. Total taxes paid during the year 1940 equal $3.69 per share of stock outstanding which compares with $2.42 per share for the year 1939. These taxes are as follows:

State & Local
Real Estate & Other Local Taxes ........................................ $328,145.25
Franchise & License ...................................................... 29,253.36
State Social Security Taxes .............................................. 353,834.36

$ 711,232.97

Federal
Social Security Taxes .................................................... 203,383.57
Capital Stock ............................................................. 33,886.88
1939 & Prior Year’s Income Taxes ...................................... 379,731.71

617,002.16
$1,328,235.13

Federal, State & City Sales Taxes paid
by us and not included in Net Sales

874,740.21
$2,202,981.34

It is estimated that our Federal Income Taxes for the year 1940 payable in 1941 will be approximately $640,000.00, or $1.07 per share.

Net Current Assets at December 31, 1940 amounted to $24,972,605.89, equal to $41.81 per share, as compared with $23,863,023.79 equal to $39.95 per share at December 31, 1939.

Inventories are priced at cost or market, whichever is lower, and provision has been made for obsolescence. The Company, due to conditions arising out of the Defense Program, has made purchase commitments at the close of the year which are in excess of normal requirements.

Dividends were paid during the year in the amount of $1.50 per share, making a total of $896,002.27.
At a special meeting of the stockholders held October 9, 1940 the Mack Annuity and Retirement Plan was approved and it was placed in operation as of November 1, 1940. This plan supplements the Federal Old Age Plan and provides annuities for those employees whose earnings exceed $3,000.00 per annum.

The year of 1940 was an unusual one. The uncertainties caused by the war were a major influence in our affairs. Domestic business improved only slightly and business with the United States and Foreign Governments while substantial, was irregular. A more settled policy seems to be growing in planning for future needs, and customers' demands have become steadier and a long range policy of purchasing new vehicles has recently developed. Purchasers are recognizing the fact that trucks and buses, at least the better grade ones, cannot be taken off the shelf without a lot of ground work and preparation.

The year as a whole is the best one as to volume and profits since 1930 and the response of our customers is gratifying evidence that the Company's aggressive policies in sales, engineering and research are meeting with favor.

Further progress has been made in advancing and bettering the Company's product. Several new lines of trucks and buses have been produced that are creating much favorable comment both as to appearance and utility. Price levels in some lines improved slightly although a considerable volume of business was handled at prices reflecting a continuance of keen competition both in domestic and Government business.

The backlog of orders at December 31, 1940 was the largest in the Company's history, approximately three quarters being due to orders from the United States and Foreign Governments.

At the end of the year the Company had on its rolls 8596 employees. Work levels at the plants have shown further improvement and the Company's Officials have continued to work in the direction of giving all workers steadier employment notwithstanding fluctuating conditions due to customers' delivery requirements.

In recent years it has become more difficult to complete our Annual Report to Stockholders sufficiently in advance of our Annual Meeting of Stockholders which falls on the fourth Wednesday in March. The By-laws have therefore been amended to provide that, commencing with the year 1942, the date for the Annual Meeting of Stockholders shall be the fourth Wednesday in April.

A wholehearted effort is being made by your officers, managers and employees to meet the requirements of the Defense Program and nothing is left undone to co-operate with the Government Officials in developing their plans for the country's defense; a high degree of devotion, interest and loyalty has been manifested in doing this work.

Every possible effort is being made to serve our regular customers, but as the Defense Program develops and priorities of one kind or another are invoked, it is to be expected that difficulties in taking care of normal needs will accumulate. We believe that your organization will be equal to any demands that our customers may make on it as its members are equipped with experience and skill to a high degree.

Respectfully submitted,

FOR THE DIRECTORS

E. C. Fink
President

New York City, N. Y.
February 18, 1941.
MACK TRUCKS, INC.

CONSOLIDATED BALANCE

A S S E T S

CURRENT ASSETS:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>5,865,719.28</td>
</tr>
<tr>
<td>Accounts Receivable (less Reserve $144,327.66)</td>
<td>2,844,477.85</td>
</tr>
<tr>
<td>Installments Receivable (a) (less Reserve $1,058,739.64)</td>
<td>8,291,992.73</td>
</tr>
<tr>
<td>Inventories — valued at lower of cost or market</td>
<td>16,480,056.39</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>$33,482,246.25</strong></td>
</tr>
</tbody>
</table>

SUNDRY INVESTMENTS (less Reserve $51,000.00) — at cost or nominal value

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry Investments</td>
<td>1,088,441.80</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>1,889,742.75</td>
</tr>
<tr>
<td>Buildings and Building Equipment</td>
<td>13,586,026.83</td>
</tr>
<tr>
<td>Machinery and All Other Equipment</td>
<td>15,397,587.79</td>
</tr>
<tr>
<td><strong>Total Fixed Assets</strong></td>
<td><strong>$29,183,785.62</strong></td>
</tr>
<tr>
<td>Less: Reserve for Depreciation</td>
<td>12,117,981.09</td>
</tr>
<tr>
<td><strong>Deferred CHARGES</strong></td>
<td>6,881.76</td>
</tr>
<tr>
<td>Depreciation</td>
<td>315,251.30</td>
</tr>
<tr>
<td><strong>Total Deferred Charges</strong></td>
<td><strong>$47,010,802.20</strong></td>
</tr>
</tbody>
</table>

(a) Installments receivable are secured by chattel mortgages, conditional sales agreements, customers' default. The installments receivable on hand and those sold aggregate $1,058,739.64 shown above is considered adequate provision for such losses.

(b) Included in current assets is $156,314.31 of cash and $331,156.81 of other current assets are realizable in United States currency only by permit from the Ca

(c) Federal income tax returns filed for the years 1938 and 1939 have been reviewed and accepted and provision therefor made in the accounts. The assessment for liability, if any, is not known and no provision has been made therefor in the accounts.

(d) The annuity and retirement plan adopted by the Company at meetings of the Board of Directors was effective November 1, 1940 provides for the purchase of annuities through the attainment of certain ages as set forth in the plan. The Company reserves the right to modify the annuity plan in the future. The cost of purchasing retirement benefits in the future is estimated that the cost of purchasing, at the present time, retirement benefits in the future is estimated.

(e) It is the Company's intention to charge operations with the cost of the retirement benefits in the future.
LIABILITIES & CAPITAL

CURRENT LIABILITIES:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drafts Payable</td>
<td>$978,250.74</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>2,876,450.98</td>
</tr>
<tr>
<td>Accrued Accounts (taxes, except Federal income taxes, commissions,</td>
<td>1,898,927.85</td>
</tr>
<tr>
<td>insurance premiums, etc.)</td>
<td></td>
</tr>
<tr>
<td>Advances on Contracts and Customers' Deposits</td>
<td>2,101,827.99</td>
</tr>
<tr>
<td>Accrual of Federal Income Taxes of Current and Prior Years (c)</td>
<td>654,182.80</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td><strong>$8,509,640.36</strong></td>
</tr>
</tbody>
</table>

MINORITY INTERESTS

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>MINORITY INTERESTS</td>
<td>2,300.00</td>
</tr>
</tbody>
</table>

CAPITAL STOCK:

<table>
<thead>
<tr>
<th></th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common, No Par Value</td>
<td></td>
</tr>
<tr>
<td>Authorized</td>
<td>817,973</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):

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Surplus Paid-In</td>
<td>$25,874,547.26</td>
</tr>
<tr>
<td>Earned Surplus</td>
<td>9,637,639.38</td>
</tr>
<tr>
<td></td>
<td>35,512,186.84</td>
</tr>
</tbody>
</table>

**Total SURPLUS** $47,010,802.20

CONTINGENT LIABILITIES:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>On agreement to repurchase installments receivable sold, in event of</td>
<td>$8,603,978.44</td>
</tr>
<tr>
<td>customers' default (a)</td>
<td></td>
</tr>
</tbody>
</table>

(a) or leases $8,603,978.44 have been sold under agreement to repurchase in the event of    
$8,603,978.44 have been sold under agreement to repurchase in the event of    
954,710.81 of which $7,200,722.00 are due at dates subsequent to December 31, 1941. The    
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sets in respect of the Company's Canadian subsidiary converted at current rate of exchange.    
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Han Foreign Exchange Control Board.    
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the Bureau of Internal Revenue and preliminary assessments made. The assessment for 1939    
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1938 in the amount of $194,493.30 has been formally protested by the Company. The ultimate    
1938 in the amount of $194,493.30 has been formally protested by the Company. The ultimate    
Directors and Stockholders held on August 23, 1940 and on October 9, 1940, respectively,    
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Equitable Life Assurance Society payable to employees with certain service records upon their    
Equitable Life Assurance Society payable to employees with certain service records upon their    
suspend or discontinue the plan in whole or in part at any time. The Assurance Society has    
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$1,000,000. No provision has been made in the accounts as from time to time paid.    
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MACK TRUCKS, INC., AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1940

SALES — NET............................................................ $44,052,345.77

NET OPERATING PROFIT FOR YEAR BEFORE DEDUCTING MAINTENANCE AND REPAIRS AND PROVISION FOR DEPRECIATION (after deducting $18,731.00 paid on account of Pension Plan).................. $ 4,188,607.25

Deduct:

  Maintenance and Repairs........................................ $ 1,664,725.30
  Provision for Depreciation.................................... 1,040,481.53

NET OPERATING PROFIT FOR YEAR................................ $ 1,483,397.42

Add:

  Other Income — Net —
    Interest on Installments Receivable........................ $ 946,022.00
    Miscellaneous Other Income.................................. 250,844.85

Less:

  Interest paid.................................................. $ 211,763.61
  Loss on Conversion of net foreign assets....................... 23,179.53

NET PROFIT FOR YEAR BEFORE ESTIMATED FEDERAL INCOME TAX $ 2,445,821.13

Deduct: Estimated Federal income tax (no provision necessary for excess profits tax under the Second Revenue Act of 1940)........... 640,000.00

NET PROFIT FOR YEAR (includes nominal amount of profit in respect of Canadian subsidiary).......................... $ 1,805,821.13

STATEMENT OF CONSOLIDATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1940

<table>
<thead>
<tr>
<th>Total</th>
<th>Capital Surplus</th>
<th>Earned Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>SURPLUS AT DECEMBER 31, 1939, PER PUBLISHED ACCOUNTS........</td>
<td>$34,602,367.98</td>
<td>$25,874,547.26</td>
</tr>
<tr>
<td>Add: Net profit for year, per accompanying statement of operations</td>
<td>1,805,821.13</td>
<td>—</td>
</tr>
<tr>
<td>Total..........</td>
<td>$36,408,189.11</td>
<td>$25,874,547.26</td>
</tr>
<tr>
<td>Deduct: Cash dividends on common stock.........................</td>
<td>896,002.27</td>
<td>—</td>
</tr>
<tr>
<td>SURPLUS AT DECEMBER 31, 1940.................................</td>
<td>$35,512,186.84</td>
<td>$25,874,547.26</td>
</tr>
</tbody>
</table>
TO THE BOARD OF DIRECTORS AND STOCKHOLDERS,
MACK TRUCKS, INC.,
New York, N. Y.

We have examined the consolidated balance sheet of MACK TRUCKS, INC., AND SUBSIDIARIES as at December 31, 1940 and the statements of consolidated operations and consolidated surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate.

In our opinion, the accompanying consolidated balance sheet and related statements of consolidated operations and consolidated surplus, including the notations thereon, present fairly the consolidated position of Mack Trucks, Inc., and Subsidiaries at December 31, 1940 and the results of their consolidated operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y.,
February 18, 1941.

(Signed)

ARTHUR YOUNG & COMPANY
BRANCHES

AKRON, O. .................................... 695 Johnston Street
ALBANY, N. Y. ................................ 1062 Broadway
ALLENTOWN, PA ................................ 727 Union Boulevard
ATLANTA, GA .................................. 720 Peachtree Street, N. E.
BALTIMORE, MD ................................ 1210 East 20th Street
BIRMINGHAM, ALA .............................. 3111 Second Ave., South
BOSTON, MASS .................................. 75 No. Beacon St. (Allston)
BRIDGEPORT, CONN ......................... 3240 Fairfield Avenue
BROOKLYN, N. Y ................................ 415 Third Avenue
BUFFALO, N. Y .................................. 1734 Jefferson Avenue
CAMDEN, N. J .................................. Jefferson Ave. and Sixth St.
CHARLOTTE, N. C .............................. 1400 South Mint Street
CHICAGO, ILL ................................... 223rd St. and Wentworth Ave.
CINCINNATI, O .................................. 1232 West Eighth Street
CLEVELAND, O .................................. 7001 Carnegie Avenue
COLUMBUS, O ................................... 517 North Park Street
DALLAS, TEX ................................. 1900 South Ervay Street
DEE MOINES, IWA ............................. 406 East Grand Avenue
DETROIT, MICH ................................ 5123 Grand River Avenue
ERIE, PA ........................................ 1921 State Street
FRESNO, CAL .................................... 1622 "T" Street
HARRISBURG, PA ............................... 2030 Paxton Street
HARTFORD, CONN ............................. 709 Windsor Street
HOUSTON, TEX ................................. 8006 Harrisburg Boulevard
INDIANAPOLIS, IND ........................... 421 Kentucky Avenue
JACKSONVILLE, FLA ........................... 133 Riverside Avenue
JERSEY CITY, N. J ............................ 1079 West Side Avenue
KANSAS CITY, MO ............................. 2605 Warwick Boulevard
LONG ISLAND CITY, N. Y .................... 49th Ave. and 24th St.
LOS ANGELES, CAL ............................. 2001 South Alameda Street
LOUISVILLE, KY ................................ 2311 South Brook Street
MANCHESTER, N. H ............................ 540 Second Street
MILWAUKEE, WIS .............................. 1750 West North Avenue
MINNEAPOLIS, LONG ISL, N. Y ............ 253 Jericho Turnpike
MINNEAPOLIS, MINN ............................ 2565 University Ave. (Midway)
MONTREAL, CANADA ............................ 1561 St. James St. West
NEWARK, N. J .................................. 1339 Broad Street
NEW BRUNSWICK, N. J ....................... 485 Raritan Ave. (Highland Park)
NEWBURGH, N. Y ................................ 136 Mill Street
NEW HAVEN, CONN ......................... 251 Orange Ave. (West Haven)
NEW ORLEANS, LA ............................. 740 Carondelet Street
NEW YORK, N. Y ................................ 625 West 42nd Street
NORFOLK, VA ..................................... 115 West 21st Street
OKLAHOMA CITY, OKLA ................. 3 East Tenth Street
PATERSON, N. J ................................. State Highway No. 6 (East Paterson)
PHILADELPHIA, PA ......................... 3647 East York Street
PITTSBURGH, PA ................................ Liberty Ave. and Gross St.
PITTSBURG, PA ................................ 702 Exeter Ave. (West Pittston)
PORTLAND, ME ................................ 18 Bedford Street
PORTLAND, ORE ............................... 7 N. E. Oregon Street
POUGHKEEPSIE, N. Y ......................... 205 Delafield Street
PROVIDENCE, R. I .............................. 630 Broadway
READING, PA .................................... 1212 Moss Street
RICHMOND, VA ................................. 1200 North Boulevard
ROCHESTER, N. Y ................................ 1507 University Avenue
SACRAMENTO, CAL ............................ 3224 Jossom Boulevard
ST. LOUIS, MO ................................. Chouteau Ave. at Jefferson
ST. PAUL, MINN ................................. 2565 University Ave. (Midway)
SALT LAKE CITY, UTAH ...................... 507 South Main Street
SAN FRANCISCO, CAL ....................... 1745 Polson Street
SEATTLE, WASH .............................. 701 Ninth Avenue North
SPRINGFIELD, MASS ......................... 18 Osborne Terrace
SYRACUSE, N. Y ............................... 522 West Genesee Street
TAMPA, FLA .................................... 1712 Platt Street
TORONTO, CANADA ............................ 225 Dufferin Street
UTICA, N. Y .................................... 101 Seneca Street
WASHINGTON, D. C .......................... 2121 West Virginia Ave. N.E.
WATERBURY, CONN ............................ 1144 South Main Street
WHITE PLAINS, N. Y .......................... 111 South Kensico Avenue
WORCESTER, MASS ............................. 206 Belmont Street