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

December 31, 1942
BOARD OF DIRECTORS

Louis G. Bissell, Chairman

George E. Clark
Harry W. Croft
John N. Marshall
William S. Newell

Clarkson Potter
Walter E. Reid
C. T. Ruhf
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

C. T. Ruhf, Executive Vice President
F. F. Staniford, Vice President-Sales Manager
J. E. Savacool, Vice President-Comptroller
L. C. Josephs, Jr., Vice President-Chief Engineer
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

The Annual Meeting of Stockholders will be held on April 29, 1943. The Management will solicit proxies for this meeting and proxy material will be mailed to stockholders about March 19, 1943.
Enclosed herewith is Consolidated Balance Sheet as at December 31, 1942 and Consolidated Profit and Loss Statement for the year 1942 of your Corporation and its subsidiary companies, certified by Arthur Young & Company.

These statements show net sales for 1942 in the sum of $97,174,750.37, as compared with net sales of $76,560,265.70 reported for the year 1941 and net income for 1942 in the sum of $2,988,432.11 as compared with net income of $2,944,319.65 reported for the year 1941.

The charges against income for the year 1942 include the provision of a reserve of $500,000.00 against approximately $2,000,000.00 of inventory value estimated to represent items which, because of war restrictions, cannot be considered currently usable, and the addition of $1,000,000.00 to the reserve for post-war adjustments.

No reserve was provided for any liability which may arise as a result of renegotiation of contracts and subcontracts to repay the Government any part of the profits derived therefrom which under the Act of Congress approved April 28, 1942, as amended October 21, 1942, may be determined to have been "excessive." Renegotiation proceedings have been commenced.

The post-war credit provided for in the 1942 Revenue Act of ten per cent of excess profits tax payments is shown on the enclosed Consolidated Balance Sheet as a non-current asset and is deducted from taxes payable in the accompanying Consolidated Profit and Loss Statement.

The net income reported for 1942 subject to such renegotiation of contracts and inclusive of such post-war tax credit amounted to $5.00 per share of stock outstanding, as compared with $4.93 per share reported for 1941. Dividends aggregating $3.00 per share were paid during 1942.

Installments Receivable, whether on hand or sold, amounted at December 31, 1942 to $6,989,188.36, as compared with $16,015,389.36 at December 31, 1941. In view of this decrease and of changed credit conditions, the related reserve of $993,191.31 was reduced to $200,000.00 and the difference was restored to Earned Surplus.

The Bureau of Internal Revenue has asserted a claim for additional federal income and excess profits taxes for the years 1940 and 1941 in the aggregate principal sum of $2,021,061.20. It is based principally on the three following contentions: That for the purposes of depreciation deductions a longer useful life should be attributed to buildings, machinery and equipment of the Corporation; that the costs of certain tools, dies, jigs, fixtures and patterns which the Corporation charged to manufacturing costs, consistently with a policy adopted in 1931, should be capitalized and charged off only through depreciation; and that December 31, 1941 inventories of service parts for old models of equipment and excess service parts should have been valued at full cost and not at estimated realizable value. This claim is being contested and no provision has been made in the enclosed financial statements with respect to it.

Your Corporation has participated increasingly in the war effort not only as a prime contractor but also as a subcontractor and has received recognition as a competent wartime producer of quality equipment. During the year 1942 all three of its principal plants were awarded the Army-Navy "E" flag. The Corporation has the greatest backlog of orders in its history. Toward the end of 1942 when the last of the buses which the Corporation was permitted to manufacture
commercially were nearing completion arrangements were made, at the instance of the Navy Depart-
ment, for a lease of the bus assembly plant at Allentown, Pa. to Vultee Aircraft, Inc. Your
Corporation had expected to use this plant in its own expanding operations for war purposes.
The proposed lease will yield no return during the war emergency. Your Corporation is, however,
being provided by the Government with substitute space at Allentown for its own operations for
war purposes. Certain rearrangements of existing facilities have been necessitated by this transac-
tion and are being effected.

At the end of 1942 there were 10,251 employees on the payrolls of the Corporation. Work
was generally steady during most of the year. Wages rose during the year. Nearly 1,500 employees
have entered the armed forces of the nation. Employees purchased War Bonds and Stamps through
the Corporation in the aggregate sum of nearly $700,000.00.

Negotiations with banks have been commenced with a view to obtaining for the Corporation
a substantial V-Loan.

In the current year the Corporation has lost the services of Mr. E. C. Fink, who was its
President and the Chairman of its Board of Directors and the counsel of Mr. W. Hinckle Smith,
who was one of its directors. Mr. Fink died on the first day of the year after thirty years of
continuous service with the Corporation, as Assistant to the President, Vice President and a
Director, and finally President and Chairman of the Board of Directors. Mr. Smith died on January
28, 1943 after serving continuously as a Director for over twenty years. It is with deep sorrow
that we record the deaths of these able men. They will be greatly missed.

To all our officers, managers and employees we express again our appreciation of the work
they have done and of the contributions they have made to the activities of the Corporation.

By Order of the Board of Directors.

LOUIS G. BISSELL,
Chairman of the Board.

New York, N. Y., March 16, 1943.
MACK TRUCKS, INC
CONSOLIDATED BALANCE SHEET

| ASSETS |
|-----------------|-----------------|
| CURRENT ASSETS: |                 |
| Cash in Banks and on Hand | $2,899,550.03 |
| United States of America Treasury Notes Tax Series C, due December 1, 1945, at cost | 3,000,000.00 |
| Accounts Receivable: |               |
| U. S. Government Departments | $12,316,982.83 |
| Other (less Reserve $144,327.66) | 3,595,256.96 |
| Installments Receivable (less Reserve $200,000.00) (a) | 5,410,651.52 |
| Inventories (less Reserve $500,000.00) (b) | 28,690,260.54 |
| Total Current Assets | (c) $55,912,701.88 |
| EMERGENCY PLANT FACILITIES—Reimbursable by U. S. Government | 223,362.25 |
| SUNDRY INVESTMENTS (Less Reserve $16,500.00)—at Cost or Nominal Value | 783,114.13 |
| POST WAR REFUND OF EXCESS PROFITS TAX | 1,410,000.00 |
| FIXED ASSETS—At Cost: |             |
| Real Estate | $1,721,647.09 |
| Buildings and Building Equipment | $13,474,275.56 |
| Machinery and All Other Equipment | 16,174,249.79 |
| $29,648,525.35 |
| Less: Reserve for Depreciation | 20,599,007.57 |
| $9,049,517.78 |
| Emergency Facilities—Company-Owned | $1,127,016.25 |
| Less: Reserve for Amortization | 149,482.45 |
| 977,533.80 |
| 11,748,698.67 |
| DEFERRED CHARGES (prepaid taxes, insurance premiums, etc.) | 744,316.63 |
| $70,822,193.56 |

(a) Installments receivable are secured by chattel mortgages, conditional sales agreements or leases. $1,378,536 on hand and those sold aggregate $6,989,188.36 of which $3,124,317.00 are due at dates subsequent to Dec. occur on installments receivable on hand and on repurchases, if any, of those sold.
(b) Factory inventories and service parts at branches are stated at average cost with proper provision for obsolete under war restrictions. New trucks and buses are valued at average cost. All such inventory values are less cost or selling market after allowing for selling expenses. No inter-company profits are included in inventory values.
(c) Current assets include $183,867.21 of cash and $279,828.62 of other current assets in respect of the Company's contracts directly or indirectly with the Government of the United States of America only under permit from the Canadian Foreign Exchange Control Board. There is included in the sum of $55,912,701.88 also $189,250.00 of cash and $180,250.00 of other current assets in respect of the Company's contracts with the Government of the United Kingdom.
(d) The Federal income tax returns filed for the years 1940 and 1941 have been examined by field examiners of the Internal Revenue Service. The deficiencies thus found are $1,378,536, of which $1,378,536 are due at dates subsequent to Dec. 31, 1941. It is now possible to determine that the amount ultimately payable is not now determinable and as, if the books of the Company were changed to the surplus, no provision has been made therefor in the accounts.
(e) Under the Sixth Supplemental National Defense Appropriation Act of 1942 as amended by the Revenue Acts of 1943 and 1944, the Federal income tax returns filed for the years 1940 and 1941 have been examined by field examiners of the Internal Revenue Service. The deficiencies thus found are $1,378,536, of which $1,378,536 are due at dates subsequent to Dec. 31, 1941. It is now possible to determine that the amount ultimately payable is not now determinable and as, if the books of the Company were changed to the surplus, no provision has been made therefor in the accounts.
(f) No provision has been made in the accounts for such future payments as may be made under annuity plans. The estimated cost of the annuity plans in respect of past services would approximate $1,343,000.00.
# AND SUBSIDIARIES

## LIABILITIES AND CAPITAL

### CURRENT LIABILITIES:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drafts Payable</td>
<td>$141,947.43</td>
</tr>
<tr>
<td>Notes Payable to Banks</td>
<td>$4,850,000.00</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$1,521,619.15</td>
</tr>
<tr>
<td>Accrued Accounts (taxes, except Federal income taxes,</td>
<td></td>
</tr>
<tr>
<td>commissions, insurance premiums, etc.)</td>
<td>$2,123,362.14</td>
</tr>
<tr>
<td>Customers' Deposits</td>
<td>$79,624.80</td>
</tr>
<tr>
<td>Provision for Federal Income and Excess Profits Taxes</td>
<td></td>
</tr>
<tr>
<td>(d)</td>
<td>$15,462,544.23</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td><strong>$27,179,097.75</strong></td>
</tr>
</tbody>
</table>

### RESERVE FOR POST WAR ADJUSTMENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reserve for Post War Adjustments</strong></td>
<td>$2,000,000.00</td>
</tr>
</tbody>
</table>

### MINORITY INTERESTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Minority Interests</strong></td>
<td>$2,300.00</td>
</tr>
</tbody>
</table>

### CAPITAL STOCK:

<table>
<thead>
<tr>
<th>Item</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common, No Par Value</td>
<td><strong>817,973</strong></td>
</tr>
<tr>
<td>Authorized</td>
<td></td>
</tr>
<tr>
<td>Outstanding</td>
<td><strong>597,335</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,986,675.00</strong></td>
</tr>
</tbody>
</table>

### SURPLUS (per accompanying statement):

<table>
<thead>
<tr>
<th>Item</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 (d) (e)</td>
<td><strong>12,779,573.55</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$70,822,193.56</strong></td>
</tr>
</tbody>
</table>

### CONTINGENT LIABILITIES:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>On agreement to repurchase installments receivable</td>
<td></td>
</tr>
<tr>
<td>sold, in event of customers' default (a)</td>
<td><strong>$1,378,536.84</strong></td>
</tr>
</tbody>
</table>

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4 have been sold under agreement to repurchase in the event of customers' default. The installments receivable for the year 1943. The reserve of $200,000.00 shown above is considered an adequate provision for such losses as may be sustained in items and a reserve of $500,000.00 in respect of approximately $2,000,000.00 of factory inventories frozen in the selling market after allowing for selling expenses. Used trucks and buses are valued at the lower of cost or net realizable value. The company's Canadian subsidiary, converted at current rate of exchange. Such assets are realizable in United States dollars in the event of consolidated operations the net profit of such subsidiary which is not material in amount.

Bureau of Internal Revenue who have tentatively asserted deficiencies in the aggregate amount of $2,021,061.20. These assertions are not followed by the Company. The Company has filed a formal protest against such deficiencies and as the less conservative accounting practices upon which the deficiencies are based, a credit would result to earned surplus.

1 of 1942, renegotiation proceedings have been commenced by the U. S. Government for the purpose of determining the reduction in profit which will be after renegotiation and no reserve has been provided in the accounts for the U. S. Government. It is impossible to state at this time the reduction in profit (which will be after renegotiation and no reserve has been provided in the accounts for adoption by the Company in 1940 and extended in 1942. The Company has the right to modify, suspend or abandon the contracts, that will result from such renegotiation and no reserve has been provided in the accounts for adoption. The estimated cost of purchasing, at the present time, the balance of retirement benefits in...
MACK TRUCKS, INC., AND SUBSIDIARIES
STATEMENT OF CONSOLIDATED OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1942

SALES — NET ................................................................. $97,174,750.37

NET OPERATING PROFIT (AFTER PROVISION OF $500,000 FOR FROZEN INVENTORIES AT FACTORIES) FOR YEAR BEFORE DEDUCTING MAINTENANCE AND REPAIRS AND PROVISION FOR DEPRECIATION AND AMORTIZATION ........................................... $20,546,989.47

Deduct:

  Maintenance and Repairs ........................................ $ 1,942,979.94
  Provision for Depreciation and Amortization .............. 1,179,685.85

NET OPERATING PROFIT FOR YEAR .................................. $17,424,323.68

Add:

  Other Income — Net —
    Interest on Installments Receivable ................. $ 671,258.80
    Miscellaneous Other Income ...................... 241,876.97

Less:

  Interest Paid .................................................. $ 180,191.48
  Loss on Capital Assets Sold —
    Net ......................................................... 128,835.86

NET PROFIT FOR YEAR BEFORE ESTIMATED FEDERAL INCOME AND EXCESS PROFITS TAXES ......................................................... $18,028,432.11

Deduct:

  Estimated Federal Income Taxes —
    Normal tax, surtax and declared value excess
    profits tax ............................................. $ 1,350,000.00
    Excess profits tax .................................. $14,100,000.00
  Less: Post war credit .................................. 1,410,000.00

NET PROFIT FOR YEAR ................................................ $ 3,988,432.11

Less: Provision for Post War Adjustments .................. 1,000,000.00

BALANCE OF INCOME FOR YEAR, TRANSFERRED TO EARNED SURPLUS (*) ......................................................... $ 2,988,432.11

STATEMENT OF CONSOLIDATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1942

<table>
<thead>
<tr>
<th>Total</th>
<th>Capital Surplus</th>
<th>Earned Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>$36,664,501.94</td>
<td>$25,874,547.26</td>
<td>$10,789,954.68</td>
</tr>
</tbody>
</table>

Add:

  Amount of reserve for installments receivable provided in prior years and not now required ............................................. 793,191.31
  Balance of income for year, per accompanying statement of operations ............................................. 2,988,432.11

Deduct:

  Cash dividends on common stock .................................. 1,792,004.55

SURPLUS AT DECEMBER 31, 1942 ...................................... $38,654,120.81 | $25,874,547.26 | $12,779,573.55 (**)

(*) Reference is made to note (c) to the accompanying consolidated balance sheet.
(**) Reference is made to notes (d) and (e) to the accompanying consolidated balance sheet.
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 of December 31, 1942 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. Except that it was not practicable to confirm receivables from the U. S. Government, as to the substantial accuracy of which we satisfied ourselves by other means, our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, subject to adjustment arising from renegotiation as explained in Note (e) to the consolidated balance sheet, the amount of which may be material although the financial effect thereof cannot be determined at this time, the accompanying consolidated balance sheet and related statements of consolidated operations and consolidated surplus, including the notations thereon, present fairly the consolidated financial position of Mack Trucks, Inc., and Subsidiaries at December 31, 1942 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.

(Signed)

ARTHUR YOUNG & COMPANY

New York, N. Y.
March 1, 1943.
AKRON, O. ................................................................. 695 Johnston Street
ALBANY, N. Y. .................................................................. 1062 Broadway
ALLENTOWN, PA. .................................................................. 727 Union Boulevard
ATLANTA, GA. ...................................................................... 730 Peachtree Street N. E.
BALTIMORE, MD. .................................................................... 1210 East 20th Street
BIRMINGHAM, ALA. .......................................................... 2121 Second Avenue South
BOSTON, MASS. ...................................................................... 75 No. Beacon Street (Allston)
BRIDGEPORT, CONN. ...................................................... 2430 Fairfield Avenue
BRONX, N. Y. .......................................................................... Leggert Avenue and Barry Street
BROOKLYN, N. Y. ..................................................................... 415 Third Avenue
BUFFALO, N. Y. ................................................................. 267 Michigan Avenue
CAMDEN, N. J. ........................................................................ 1400 South Mint Street
CHARLOTTE, N. C. ........................................................... 53rd Street and Wentworth Avenue
CINCINNATI, O. ..................................................................... 1233 West Eighth Street
CLEVELAND, O. ..................................................................... 7001 Carnegie Avenue
DALLAS, TEX. .......................................................................... 1900 South Ervay Street
DES MOINES, IOWA .......................................................... 106 East Grand Avenue
DETROIT, MICH. ...................................................................... 5133 Grand River Avenue
ERIE, PA. .................................................................................. 2519 West 12th Street
HARRISBURG, PA. ............................................................ 2020 Paxton Street
HARTFORD, CONN. .......................................................... 701 Windsor Street
HOUSTON, TEX. ....................................................................... 3005 Harrisburg Boulevard
INDIANAPOLIS, IND. .......................................................... 421 Kentucky Avenue
JACKSONVILLE, FLA. ......................................................... 2203 West Beaver Street
JERSEY CITY, N. J. ............................................................ 1079 West Side Avenue
KANSAS CITY, MO. .................................................................. 2605 Warwick Boulevard
LONG ISLAND CITY, N. Y. .................................................. 48th Avenue and 34th Street
LOS ANGELES, CAL. ........................................................... 1501 South Central Avenue
LOUISVILLE, KY. ............................................................... 2311 South Brook Street
MANCHESTER, N. H. ........................................................ 549 Second Street
MILWAUKEE, WIS. ............................................................ 1750 West North Avenue
MINEOLA, N. Y. ....................................................................... 395 Jericho Turnpike
MINNEAPOLIS, MINN. ........................................................ 2505 University Avenue (Midway)
MONTREAL, CANADA. .......................................................... 1501 St. James Street West
NEWARK, N. J. ........................................................................ 1239 Broad Street
NEW BRUNSWICK, N. J. ..................................................... 438 Race Avenue (Highland Park)
NEWBURGH, N. Y. .............................................................. 138 Mill Street
NEW HAVEN, CONN. ......................................................... 72 Orange Avenue (West Haven)
NEW ORLEANS, LA. ........................................................... 740 Carondelet Street
NEW YORK, N. Y. ............................................................. 625 West 42nd Street
NORFOLK, VA. .......................................................................... 118 West 24th Street
OKLAHOMA CITY, OKLA. ................................................... 3 East Tenth Street
PATERSON, N. J. ....................................................................... State Highway No. 6 (East Paterson)
PHILADELPHIA, PA. .......................................................... 2647 East York Street
PITTSBURGH, PA. ..................................................................... Liberty Avenue and Gross Street
PITTSFORD, PA. ........................................................................ 702 Ecker Street (West Pittston)
PORTLAND, ME. ..................................................................... 18 Bedford Street
PORTLAND, ORE. .............................................................. 7 N. E. Oregon Street
POUGHKEEPSIE, N. Y. ....................................................... 205 DeKalb Street
PROVIDENCE, R. I. ............................................................. 650 Broadway
READING, PA. ........................................................................ 1212 Moss Street
RICHMOND, VA. .............................................................. 1200 North Boulevard
ROCHESTER, N. Y. ............................................................ 1357 University Avenue
SACRAMENTO, CAL. .......................................................... 3124 Folsom Boulevard
ST. LOUIS, MO. ......................................................................... Chouteau Avenue at Jefferson
ST. PAUL, MINN. ............................................................... 2505 University Avenue (Midway)
SALT LAKE CITY, UTAH .................................................... 807 South Main Street
SAN FRANCISCO, CAL. ..................................................... 1745 Folsom Street
SEATTLE, WASH. ............................................................... 701 Ninth Avenue North
SPRINGFIELD, MASS. .......................................................... 18 Osborne Terrace
SYRACUSE, N. Y. ..................................................................... 923 West Genesee Street
TAMPA, FLA. ........................................................................... 1712 Platt Street
TORONTO, CANADA .................................................................. 881 Bay Street
UTICA, N. Y. ........................................................................... 105 Seneca Street
WATERTOWN, D. C. ........................................................... 3121 West Virginia Avenue N. E.
WASHINGTON, D. C. .......................................................... 1144 South Main Street
WHITE PLAINS, N. Y. ........................................................ 158 Westchester Avenue
WORCESTER, MASS. ................................................................ 506 Belmont Street