NORTH AMERICAN AVIATION, INC.

AND

SUBSIDIARY COMPANIES

Annual Report
1931
NORTH AMERICAN AVIATION, INC.

OFFICERS

H. E. TALBOTT, JR.
Chairman of Executive Committee

THOMAS A. MORGAN
President

THOMAS B. DOE
Vice President

JOHN SANDERSON
Secretary and Treasurer
To the Stockholders of
NORTH AMERICAN AVIATION, INC.:

The operations of your Company and its subsidiaries for the year 1931, and its financial condition at the end of the year are presented in the form of a consolidated balance sheet, income account, capital surplus account and earned surplus account. The books and accounts of the Company and its subsidiaries were audited by Allen R. Smart & Company and their certificate is annexed hereto. It has been considered advisable to submit this year's statements in the consolidated form enclosed rather than in the form employed in past years. During 1931 the Class “A” and Class “B” options and warrants to purchase stock of North American Aviation, Inc. expired and were not extended.

The net income of your Company was materially affected by the initial development work on a number of contracts on government orders for new planes and other products, which it is anticipated will result in profitable future operations. The Sperry Gyroscope Company, Inc., had a satisfactory year and has substantial orders on its books. In addition, that company made extraordinary progress with its development of new products. The Ford Instrument Company, Inc., showed a profit and has prospective business which should show more profitable operations for 1932. The B/J Aircraft Corporation, operating on experimental and production orders for the Army and Navy, showed a loss.

During the year 1931 there was a continued expansion of mail and passenger service by Eastern Air Transport, Inc., a wholly owned subsidiary, between Atlanta and Miami, Richmond and Jacksonville, New York and Atlantic City, Atlantic City and Washington, and passenger service between Richmond, Norfolk, Atlanta, Augusta, Savannah and Charleston. The miles flown for 1931 were 3,946,896 as compared with 1,917,966 for the preceding year, and the pounds of mail carried for 1931 totalled 934,700 as compared with 649,994 the preceding year. Although this expansion has necessarily been expensive, Eastern Air Transport, Inc., has shown a satisfactory profit for the year.

Attached is given a list of the wholly owned subsidiaries of North American Aviation, Inc., and partially owned companies and companies in which a substantial stock interest is owned.

Your Board of Directors recommends a change in the no par stock of your Company with a stated value of $12.50 per share to a par value of $5.00 per share, and this recom-
mendation is being submitted to the stockholders for approval at the Special Meeting to be held March 9, 1932. This proposed adjustment of capital will result in a substantial saving in franchise taxes without changing the book value of the stock.

The reduction in the capital value of the shares from $12.50 to $5.00 results in a transfer to capital surplus of $15,892,192.50. The Board of Directors recommends that the securities and other investments be reduced to market value or estimated realizable value as of December 31, 1931, which will reduce the capital surplus from $15,892,192.50 to a balance of $2,466,415.11, thus enabling future dividends, if and when declared, to be paid from operating profits, income from the sale of investments, and the credit balance to earned surplus which at December 31, 1931, stood at $2,899,593.92.

At a meeting of the Board of Directors held January 6, 1932, the resignation of Mr. C. M. Keys as Chairman of the Board of Directors and Chairman of the Executive Committee was presented and accepted. On January 11, 1932, Mr. H. E. Talbott, Jr., was elected Chairman of the Executive Committee with full executive authority.

By order of the Board of Directors

H. E. TALBOTT, JR.

Chairman of Executive Committee.
## ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$481,706.71</td>
</tr>
<tr>
<td>United States Treasury Bills</td>
<td>$1,001,706.05</td>
</tr>
<tr>
<td>Trade Notes, Accounts and Acceptances Receivable (less reserve $12,952.47)</td>
<td>$1,015,931.19</td>
</tr>
<tr>
<td>Sundry Accounts Receivable, Accrued Interest, etc.</td>
<td>$53,926.26</td>
</tr>
<tr>
<td>Inventories of raw materials, work in process, finished goods and supplies, at cost or market, whichever is lower</td>
<td>$1,142,444.30</td>
</tr>
<tr>
<td>Contracts in progress, of which $300,536.77 is valued at selling price for percentage completed, and the balance upon the basis of costs incurred</td>
<td>$1,988,114.69</td>
</tr>
</tbody>
</table>

**TOTAL CURRENT ASSETS** $5,692,889.20

## INVESTMENTS:

- Listed Securities of companies engaged in Aviation and Allied Industries, reduced to Market Value at December 31, 1931: $3,516,099.50
- Ownership of 56% interest of capital stock of Intercontinent Aviation, Inc., and advances, less reserve: 671,163.64
- Sundry Secured Notes, Bonds and Stocks carried at not more than market, or estimated realizable value: $43,598.36

## AMOUNTS DUE FROM OFFICERS AND EMPLOYEES

- Stock Subscriptions: $84,678.66
- Deferred Charges: 716,558.17

## FIXED ASSETS:

- Plant and Equipment of Manufacturing Companies less depreciation reserve of $481,247.34: $1,562,762.98
- Flying and Service Equipment of Transport Companies less depreciation reserve of $547,909.59: 1,062,182.00

## PATENTS, after deducting provision for amortization:

- $1,168,118.30

## GOODWILL, representing cost of acquisition of subsidiaries in excess of book value:

- $3,610,506.15

**TOTAL** $17,203,282.02

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**NOTE:** Intercontinent Aviation, Inc. owns 47,667 shares of the outstanding capital stock of North American Aviation, Inc.

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**CERTIFICATE:**

We have made an audit of the books and records of the North American Aviation, Inc., scope Co., Limited, of England, for which we have accepted the report of a firm of London Accountants the combined income account as at that date and that the annexed income account and surplus accounts the changes in capital surplus and earned surplus for the year. The figures for the English companies are taken at the current rate of exchange. The difference between current exchange an ample provision in its reserve for contingencies.

The balance sheet is stated after giving effect to a change in the capital structure of the having a par value of $5.00 each, and the transfer to capital surplus of the resulting decrease in special meeting to be held on March 9, 1932.

New York, February 23, 1932.
### NORTH AMERICAN AVIATION, INC.
and its Subsidiary Companies

**CONSOLIDATED CAPITAL SURPLUS ACCOUNT**
December 31, 1931

CAPITAL SURPLUS arising through transfer from Capital Stock account representing a proposed reduction of the outstanding Capital Stock of 2,118,959 shares from a stated no par value of $12.50 per share to a par value of $5.00 per share. .......................................................... $15,892,192.50

**DEDUCT:**
- Amount provided to reduce listed securities to market value at December 31, 1931 .......................................................... $12,428,148.88
- Reduction in carrying value of 56% interest in Intercontinent Aviation, Inc., and of certain miscellaneous securities .......................................................... 814,957.83
- Revaluation of investment in B/J Aircraft Corporation with respect to excess costs included as an asset at time of incorporation .................................................. 56,823.78
- Reduction in carrying value of North American Aviation, Inc., capital stock owned in subsidiaries to $5.00 per share .......................................................... 71,033.16
- Provision for losses on repurchase agreement of employees on purchases of North American Aviation, Inc., stock .......................................................... 54,813.74

**BALANCE, December 31, 1931** .......................................................... $ 2,466,415.11

**CONSOLIDATED EARNED SURPLUS ACCOUNT**

**BALANCE, January 1, 1931** .......................................................... $ 3,558,560.30

**ADD:** Net Income for year ending December 31, 1931 .......................................................... 301,818.80

**DEDUCT:**
- Losses in security transactions during 1931 based upon average cost .......................................................... $ 714,941.15
- Provision for non-operating bad debts .......................................................... 102,117.61
- Miscellaneous adjustments applicable to prior years—net .......................................................... 960,785.18

**BALANCE, December 31, 1931** .......................................................... $ 2,899,593.92
NORTH AMERICAN AVIATION, INC.
and its Subsidiary Companies

CONSOLIDATED INCOME ACCOUNT
For the twelve months ended December 31, 1931

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>GROSS INCOME FROM OPERATIONS including income from patent royalties of $122,882.81</td>
<td>$2,185,199.39</td>
</tr>
<tr>
<td>SELLING AND GENERAL EXPENSES</td>
<td>$1,124,177.32</td>
</tr>
<tr>
<td>DEPRECIATION</td>
<td>$450,280.00</td>
</tr>
<tr>
<td>AMORTIZATION OF PATENTS AND DEVELOPMENT COSTS</td>
<td>$272,938.70</td>
</tr>
<tr>
<td>OPERATING INCOME</td>
<td>$337,803.37</td>
</tr>
<tr>
<td>OTHER INCOME:</td>
<td></td>
</tr>
<tr>
<td>Interest and Dividends</td>
<td>$182,841.82</td>
</tr>
<tr>
<td>Rents and Miscellaneous</td>
<td>$123,214.24</td>
</tr>
<tr>
<td>OTHER DEDUCTIONS:</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>$10,801.47</td>
</tr>
<tr>
<td>Administration Salaries and Expenses</td>
<td>$286,614.15</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$9,407.16</td>
</tr>
<tr>
<td>NET INCOME</td>
<td>$301,818.80</td>
</tr>
</tbody>
</table>
NORTH AMERICAN AVIATION, INC.

List of Wholly Owned Subsidiaries, Partially Owned Companies, and Companies In Which a Substantial Stock Interest Is Owned

December 31, 1931

Wholly Owned Subsidiaries:

Sperry Gyroscope Company, Inc., Brooklyn, N. Y.
New York & Atlantic Seaboard Air Express, Inc., Brooklyn, N. Y.
Eastern Air Transport, Inc., Brooklyn, N. Y.
New York Airways, Inc., Brooklyn, N. Y.
Ford Instrument Company, Inc., Long Island City, N. Y.
B/J Aircraft Corporation, Baltimore, Md.
Condor Corporation, Jersey City, N. J.

Partially Owned Companies:

Intercontinent Aviation, Inc. (56% of stock owned by North American Aviation, Inc.)
Aviation Exploration, Inc. (100% of stock owned by Intercontinent Aviation, Inc.)
Compania Nacional Cubana de Aviacion Curtiss, S. A., Cuba (100% of stock owned by Intercontinent Aviation, Inc.)
China Airways Federal Inc., U. S. A. (100% of stock owned by Intercontinent Aviation, Inc.)
(China Airways owns 45% of China National Aviation Corporation.)
Compania de Aviacion Faucett, S. A., Peru (55% of stock owned by Intercontinent Aviation, Inc.)

Substantial Stock Owned In:

Curtiss-Wright Corporation
Transcontinental Air Transport, Inc.
Douglas Aircraft Company, Inc.